

Bilateral Trade Agreements

Issues and Concerns for India



Equations

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It is not very difficult to see how the concept of international trade agreements came up. Till about a century back, free trade was as free as it ever has been. Britain, being the supreme power then, traded unbridled with all its colonies and accumulated phenomenal riches. The industrial revolution of the late 18th century had put Britain at an incomparable advantage. However, the start of the twentieth century saw the momentum of British imperialism dying down; the colonies were still there, but the British found themselves unable to control them – politically or economically. By the time the World Wars were over many of the British colonies wanted their sovereignty back. Before the end of the 19th century, the United States had already caught up with the technology and the economic efficiency that comes with it. The assembly line system of Ford Motor Company was an exemplar of the American industrial revolution. The world wars only put a confirmatory seal on the American victory.

Soon after, the East Asian countries opened their doors to foreign competition. Their performance over the next four decades shocked the rest of the world. Various reasons are ascribed to this 'miracle', the most common ones being outward orientation, macroeconomic discipline, high savings and investment rates, etc. But a closer look reveals that only Honk Kong and Singapore

pursued totally free trade policies, with virtually no tariff or trade barriers. The other countries of the region adopted interventionist although market-friendly policies, to varying degrees. Whatever be the case, trade agreements signed with other countries never figure as a probable reason for the miracle. It was internal policies that raised the national GDPs and the standards of living like never before. Similar policies adopted by some Latin American countries were not sustained.

Once the entire breadth of the continent was covered, USA soon moved to countries in other continents, hungrily swallowing up their markets with its now efficient manufactures. No trade barriers were in place then and their need was beginning to be felt by the political leaders of many of the Third World countries. These governments used their newly acquired sovereignty to erect barriers to trade with the developed world that was starting to be seen as the villain. This caused countries to become very cautious of the trade policies that they adopted. It was now obvious that mimicking the East Asian development strategy is not the answer to their economic problems.

The Bretton Woods conference of 1944 had given birth to the Fund-Bank duo that was meant to assist the devastated post war world in the

process of economic recovery. The large-scale structural adjustment programmes prescribed by them incited the masses in all the concerned developing countries. Not much was changing in the developing world's standard of living. In fact, economic inequalities increased and the situation of the people below the poverty line worsened. Dumping of American goods was hampering growth of the domestic industry; the help of trade barriers was sought.

Sensing this urgent need for protection, developing countries erected various tariff and non-tariff barriers to trade with the outside world. The most common argument used in favour of such protection was the 'infant industry' argument - that protection from competition must be granted until such a time that domestic industry can grow out of the initial teething troubles and be able to face stiff competition - domestically and from abroad. Although this argument was structured in the context of newly independent developing economies, it is often resorted to even by the developed world whenever free trade has threatened certain sectors of their domestic economies. In academic circles, inside and out of the GATT/WTO, such conservative policies have always been frowned upon on the grounds that they were trade distorting; liberal trade policies were propagated as a remedy. To end such protection and bring down barriers to trade is the essence of the free trade argument.

The two routes that any country can take to freer trade are - the multilateral, through the WTO, and at a bilateral/regional level where trading partners can be chosen. In the last decade, the emergence of the WTO as the multilateral forum professing free trade has eclipsed the importance of regional trade agreements. However, the slow progress of multilateral negotiations and developing countries' scepticism about their potential gain has led them to revert to regionalism and bilateral agreements. One significant reason for this is that once they sign an agreement proposed in this multilateral forum, their economy must be open to trade with all the other 147 member countries. This is the essence of the Most Favoured Nation (MFN) Treatment, which

embodies the principle of non-discrimination and has been the cornerstone of trade liberalisation since the Second World War. For many developing countries this may seem like a risky proposition. Compared to this, they may see an agreement signed with one other country or a small group of neighbouring countries as not only less dangerous, but also beneficial. Policy makers may study the trade prospects with the potential partner and set the guidelines accordingly. The proliferation of bilateral trade agreements over the past year by both the developed and developing world, demands attention.

Two of the largest trade agreements outside the WTO's multilateral framework are the agreements establishing the European Union (EU), and the North American Free Trade Agreement (NAFTA). These account for a major proportion of world trade carried out under the FTA banner. The idea of European integration was first proposed by the French Foreign Minister Robert Schuman in a speech on 9 May 1950 to prevent killing and destruction like in Second World War. As a result, the European Coal and Steel Community (ECSC), European Atomic Energy Community (EURATOM) and the European Economic Community (EEC) were set up with six members: Belgium, West Germany, Luxembourg, France, Italy and the Netherlands. By adding inter-governmental co-operation to the existing "Community" system, the Maastricht Treaty (1992) created the European Union (EU). The EU has progressed from being a free trade area, to a monetary union and is today the largest political union in the world. Where this may lead in the future is only left to imagination. Starting with six members, it now has a membership of 25 and is presently negotiating trade agreements with various third parties, having concluded agreements with at least ten¹.

NAFTA is a regional agreement between Canada, Mexico and the United States of America to implement a free trade area. It was signed in December 1992 and entered into force in January 1994. There are voices that cite NAFTA as a successful example of an FTA, but there is an equal number, if not more, violently against it. NAFTA,

dubbed a “death sentence” for Mexico’s campesinos and Indigenous Peoples, has led to strong and sustained resistance from a broad spectrum of Mexico’s population.

Over the last one year, India – not to miss the trade agreements bandwagon – has entered or is negotiating at least 25 bilateral and regional trade agreements with many parts of the developed and developing world. Policy makers, economists and analysts in academic circles see this as an efficient and probably the only way to put their countries on the fast track to growth. It is widely acknowledged that liberalisation in the present world is unavoidable, as are its influences on every section of the economy. What there is considerable disagreement about, though, is whether these influences are negative or positive. For a country as large and diverse as India, it is not possible to make any statements that are at all very broad in their scope. The traditional theoretical reasons given for countries entering into free trade agreements comes from David Ricardo’s theory of comparative advantage first published in his 1817 work, *‘On The Principles of Political Economy and Taxation’*. It argues that free trade allows a country to consume a larger quantity and better quality of goods and services. Through imports, a country can acquire goods and services that it either cannot produce at home or can, only at a cost that is too great, greater than that of exchanging them for the exports it produces cheaply and efficiently at home. It is clear enough, though, to the discerning eye, that political needs and ambitions drive many agreements.

The right to information warrants a closer scrutiny of the ostensible rationale behind free trade agreements, the one projected in press releases. The urgency of this need makes itself evident in the light of the fact that the year just passed has seen many changes in the brand of growth faith that the government adheres to. International relations are seen to benefit the country primarily through freer trade. The current year is one when a lot of these changes are expected to be concretised at the WTO’s 6th Ministerial Meeting in Hong Kong. The surge of FTAs that the Indian government has entered into requires

deep analysis, as it contradicts with the official position of loyalty to the WTO system. The Indian representatives have a duty to the Indian citizens. And the Indian citizens have not only a right but also a duty towards the leaders to make their opinions heard and heeded. This publication aims to assist in the making of an informed decision in this regard.

In the pages that follow, information that is relevant to a clearer understanding of the bilateral trade agreements, the multilateral trade agenda, and where India stands in the international economic order, is collected, and presented as an assistance tool. The first article talks about the general nature of bilateral or regional agreements and how they are structured. It touches upon most of the issues that will be presented in the course of this dossier and forms a basis for an informed reading on this issue. The gravity of the situation becomes evident from a few reports of agreements in the rest of the world. Then, the 25 bilateral/regional agreements that India is negotiating are listed out, followed by more detailed reports of a few major ones that highlight specific problems in the negotiating process. Issues like consensus among lobbies and research bodies, rules of origin and treaty shopping are brought out here. Some of these concerns are presented. Since the beginning of the trend of entering BTAs/RTAs, there has been a conflict between the multilateral and the bilateral frameworks – between the WTO and its member countries. The press releases presented regard these conflicts. The problems that these trade agreements create are aggressively fought against by activist groups together with the sufferers. The articles selected are primarily from newspapers; some research by quasi-government bodies has been used as conjunctive material (for reasons of space, the entire text of these papers is not produced here, but a citation directs the interested reader to the original article). Important sections of these articles are in **Bold**. Square brackets [] contain comments from the compilers.

1.1 Unraveling the complex rationale of RTAs

These can impact development and trade only if domestic policies are supportive

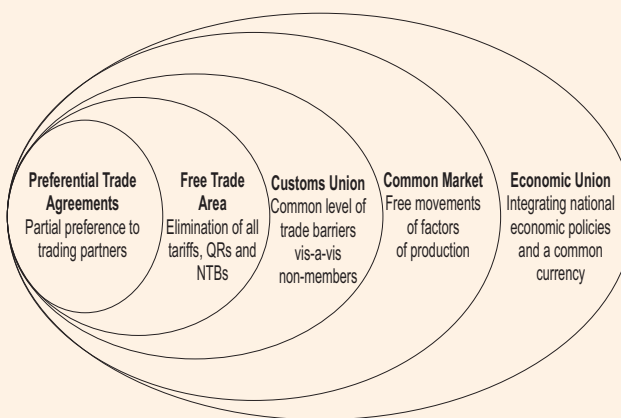
The Financial Express - Insight - REGIONAL TRADE AGREEMENTS, Bangalore, Wednesday, November 3, 2004

CHARLOTTE
SEYMOUR-SMITH

Proliferation of regional trade agreements (RTAs) has been a striking development in the world's trading systems since the mid-1990s. According to the World Trade Organisation (WTO), some 250 RTAs are in force, and the number might well approach 300 by the end of 2005. Preferential/reciprocal trading agreements reportedly cover as much as two-fifths of world trade.

RTAs are defined as groupings of countries formed to enter into preferential trading arrangements with each other. These groupings may be of countries not necessarily belonging to the same geographical region. RTAs, depending level of integration, can be divided into five categories (see chart). A majority of RTAs fall into what is described as shallow integration i.e. PTAs (e.g., Sapta) or FTAs (e.g. Safta and Nafta). Deep integration agreements are only a handful i.e., custom unions (e.g. Mercosur), common markets (e.g., Comesa) and economic unions (the EU).

Proliferation of RTAs highlights differing but



The Integration Cake

complex underlying rationales, rooted in foreign policy and in development policy. But in nearly all cases both politics and economics are important.

Economists analyse the welfare impact of RTAs in terms of 'trade creation' and 'trade diversion'. Trade creation occurs when an RTA member switches from inefficient domestic producers to lower cost producers in other RTA member-countries. But the problem is that these lower cost producers may not be the world's lowest cost producers. This leads to trade diversion, which occurs when low cost imports from countries outside of the RTA are replaced by higher cost imports from partner countries because of tariff

preferences. Needless to say, an RTA would be welfare-enhancing only when its trade creation effects outweigh its trade diversion effects.

The relative dominance of the two effects has been debated among economists for several decades now. A group of economists led by Lipsey (1957), Summers (1991) and Krugman (1991) argue that risk of trade diversion is minimal in the case of formation of RTAs among geographically proximate countries, with high trade dependence among each other. Another group of economists, led by Bhagwati (1995) and Panagariya (1996), however, argues that trade diversion is inevitable because trade is by nature multilateral i.e., countries import from and

export to RTA member countries as well as countries outside of the RTA. They say trade creation is unlikely if members of the RTA are small in relation to the outside world. Consequently, trade diversion is likely to be the more dominant effect.

In practice, trade agreements that provide for comprehensive liberalisation of trade across all major sectors and non-restrictive rules of origin are more likely to be successful.

Proponents of RTAs argue that they help nations gradually work towards global free trade by allowing countries to increase the level of competition slowly and give domestic industries time to adjust.

Opponents of RTAs point at the whole range of problems to do with defining and policing rules of origin (ROOs) in any RTA to prevent goods produced outside of the RTA obtaining preferential duties through a member country.

Proliferating RTAs can impose tremendous burden on customs administration and they do absorb scarce negotiating resources, especially in poorer countries, and crowd out

policy-makers attention from multilateral trade negotiations.

Trade performances in several RTAs (Nafta, EU, Mercosur, and Sapta) show substantial increase in inter-regional trade. The share of intra-Nafta trade rose from less than 35% to nearly 50% between late 1980s and 1999. Trade between Mercosur members doubled to 20% over the same period. The evidence from Africa, however, is mixed — regional integration among Comesa has been static, whilst trade for Ecowas [Economic Community Of West African States] and SADC [Southern African Development Community]

has increased substantially.

The share of inter-regional trade for Asean remained fairly flat over the 1990s. An interesting aspect, however, is that except for Mercosur, all RTAs that have experienced an increasing share of inter-regional trade have also witnessed a growing share of extra-regional trade in GDP — an indication, perhaps, that openness to trade and expansion of inter-regional trade go hand-in-hand.

The literature seems to suggest that if the member-countries are similar and produce simple final products, typically labour-intensive, free trade amongst them is unlikely to give a big

boost to intra-regional trade. In the absence of substantial comparative advantage, they are better off trading with the rest of the world than amongst themselves. However, developing countries are likely to gain from the economies of scale resulting from regional integration. Schiff and Winters argue that the small size and closed structure of many developing countries means that there is scope for more fully exploiting economies of scale and for removing local monopoly power.

In short, theoretical literature and empirical studies provides mixed evidence about the impact of

the proliferation of RTAs on development and multilateral trade liberalisation. The evidence does indicate a tactical behaviour in trade negotiations that may lead to additional incentives for greater liberalisation.

On balance, trade policy also requires a sound domestic policy framework for success. Entrepreneurs can take advantage of new market access opportunities — whether they flow from bilateral, regional or multilateral trading arrangements — only if the domestic investment climate is supportive.

The writer is minister (development) and head, DFID India

* Created version of the original article.

1.2 Rising interest seen for giant Asia-Pacific free trade pact

The Economic Times, Bangalore, Thursday, November 18, 2004

Wellington
November 17

PROPOSED giant Asia-Pacific free trade pact, encompassing 60% [of] the world's economy, is attracting significant interest at the top levels of APEC but is unlikely to be adopted this year, New Zealand Trade Negotiations Minister Jim Sutton said on Wednesday.

The proposal has been mooted by APEC's business advisory council, a private sector group, Sutton said in

a report from the Chilean capital of Santiago where he is attending meetings to set the stage for the Asia-Pacific Economic Co-operation (APEC) summit later this week.

"We're talking about a free trade area of the Asia-Pacific that includes 60% of the world's economy because it includes the United States, Canada, Japan, China, Korea and other big players," Sutton said.

"There's a lot of interest in this proposal although I sense it isn't going to be adopted this

year. It's a bit radical for some of the members to digest all at once ... it's the sort of idea that will be a source of discussion and analysis for a year or two".

Sutton said the basis of the proposal was that the pact would be open to any member country to join and those who did not want to would not have to.

"It would be a 'coalition of the willing,' if you like, for trade liberalisation". Sutton said that the proposed pact would avoid the need for consensus that is holding up World Trade Organisation

negotiations on trade liberalisation. The APEC proposal could also provide a plan 'B' if the current round of World Trade Organisation negotiations failed to reach a conclusion, he said.

APEC comprises Australia, Brunei, Canada, Chile, China, Hong Kong, Indonesia, Japan, South Korea, Malaysia, Mexico, New Zealand, Papua New Guinea, Peru, the Philippines, Russia, Singapore, Taiwan, Thailand, the United States and Vietnam.

— AFP

* Created version of the original article.

1.3 US, Australia finalise free trade pact

The Economic Times, Friday, November 19, 2004

Santiago (Chile)
18 NOVEMBER

The United States and Australia settled last-minute differences over a free trade deal Wednesday, concluding an agreement to take effect in January 2005 that would add billions of dollars in new trade benefits for both nations.

The deal was announced on the sidelines of the annual Asia Pacific Economic Cooperation forum, being held in Santiago, by Australian Trade Minister Mark Vaile and US Trade Representative Robert Zoellick.

The US-Australia Free Trade Agreement is the first 'FTA' between the United States and a developed country since the US-Canada Free Trade Agreement in

1988.

Trading in goods and services between both nations totalled nearly \$29 billion in 2003, marking a 53% increase since 1994 as Australia took in US manufactured aircraft, automobiles, auto parts, computers, machine, wood and other products.

The agreement had been held up at the negotiating table by US concerns over Australia's price protection on pharmaceuticals and copyright laws.

But officials said they settled differences without reopening negotiations that began in March 2003 and concluded last February.

"this is the most important bilateral deal that

Australia has ever concluded," Vaile said at a news conference at the APEC Forum.

"It will deliver real benefits to all sectors, across all states and territories".

Over 97% of Australian exports to the United States will be duty-free from next year, Vaile said.

He added that he expected the deal to add more than 30,000 jobs and an estimated annual benefit of \$6 billion for Australia's economy.

Australia is one of the world's largest exporters of farm products and Vaile said he wants APEC ministers to discuss a World Trade Organisation framework set out in July that aims to eliminate agricultural export

subsidies world-wide.

Zoellick said he met Vaile on Wednesday and completed the detail.

"By opening markets for goods and services, promoting investments and enhancing protection for intellectual property ... this agreement will create real economic opportunities in both the United States and Australia for businesses, farmers, ranchers and workers," Zoellick said in a statement. Zoellick noted earlier US concerns about Australia's protections of intellectual property, but said those had been surmounted.

Australia has committed to take steps, including legislative and regulatory changes, to address these issues". —AP

* Created version of the original article.

1.4 A new form of regionalism — South-South trade

It can result in virtuous circles where increased trade flows reduce unit costs of transport and insurance

The Financial Express - Insight - REGIONAL TRADE AGREEMENTS, Bangalore, Wednesday, November 3, 2004

VEENA JHA

There has been renewed and growing interest in South-South trade cooperation. First, there has been continued growth in the share of South-South trade in total trade of developing

countries, rising from 34% in 1990 to around 40% toward the end of the decade. Second, the number of South-South regional trade agreement (RTAs) has been increasing rapidly in recent years and is expected to increase further.

Raison d'être: South-South trade as well as the interest in South-South trade agreements can be explained by a number of factors:

• **Despite liberalisation under Gatt/ World Trade Organisation (WTO), in a**

number of sectors, exporters from developing countries continue to face problems of market access on account of tariff and non-tariff barriers in developed countries.

• **South-South RTAs offer opportunities for**

economies of scale and specialisation.

- Exploring opportunities for increased trade with other developing countries, in particular those with high growth rates, makes developing countries less vulnerable to movements in demand in developed countries, their traditional markets.

- Changes in industrial and market structures have made developing countries more competitive vis-a-vis developed countries, including in developing country markets.

- Market dynamism in the South for both capital goods and consumer goods, combined with demographic factors, would indicate a shift in growth centres to developing countries.

- Enhanced South-South trade also serves as a basis for coordinating negotiating positions and advancing issues of interest to developing countries in multilateral forums, such as the WTO.

South-South trade offers possibilities for spillovers of knowledge, technology and sharing of experiences and strategies among developing countries. A recent Unctad study concludes that most South-South RTAs have been trade-creating. The study suggests that regional and sub-regional South-South RTAs could be used as a mechanism for the

gradual integration of developing countries into the global economy. South-South integration could lead to the removal of several invisible trade barriers, such as border norms, customs formalities, testing and other trade facilitation measures.

Challenges to S-S agreements: Many South-South RTAs are yet to exploit their full potential by effectively implementing their internal liberalisation programmes and by encompassing a wider range of economic objectives and deeper integration agenda.

Protectionism may occur not only through tariffs, but also through trade-related policies such as anti-competitive practices, standards and restrictions on capital and labour mobility. These appear to remain significant barriers to regional trade. In this context, the major challenge facing developing countries is to design an appropriate form of regional integration and closer cooperation while ensuring their effective implementation.

While South-South trade remains predominantly intra-regional, particularly in manufactured goods, the inter-regional component is assuming dynamism. In agricultural products, the intra-regional component is 73%, whilst the inter-regional component is 27%. South-South trade in manufactured goods has a smaller inter-

regional component of 12%. With respect to all commodities, developing countries absorb 46% of the total exports of other developing countries. These figures suggest that there is scope and potential for intra- and inter-regional South-South trade that needs to be tapped for optimising the development gains from trade.

One interesting question, however, is whether the geographical distance factor would outweigh such advantages, if any. It has been argued that countries that are geographically contiguous or proximate are "natural" trading partners because of lower transport costs compared with the rest of the world. But transportation costs need not be a crucial factor.

Ways forward: South-South trade cooperation through the Global System of Trade Preference among developing countries (GSTP) provides a promising complementary avenue for developing countries to liberalise and expand South-South trade, in particular on an inter-regional basis. An Unctad secretariat study estimates that a 30% reduction in tariffs among GSTP members would result in an increase in GSTP trade by \$7.5-8.5 billion (\$15-18 billion in case of a 50% reduction).

Important issues that need to be addressed include the elements impeding the

expansion of intra-regional trade, potential of South-South cooperation through GSTP in expanding inter-regional trade, and the potential of RTAs to address supply-side constraints. Models of open regionalism which are inclusive, outward-looking and trade-creating need to be explored. Deepening integration among developing countries can provide further opportunities for enhanced South-South trade. Increased attention should be given to the liberalisation of services, investment and labour markets; harmonised trade remedy policies; rules of origin, and technical regulations and standards. This requires building trade and financial institutions and strengthening technological and scientific cooperation. Also, South-South cooperation may result in virtuous circles where increased trade flows reduce unit costs of transport and insurance.

The writer is media coordinator, UNCTAD, Delhi



India's history of bilateral/regional trade pacts till about two years back was rather sparse. The only two FTAs negotiated and in force were ones with Sri Lanka (effective since March 2000) and a long-standing one with Nepal (signed in 1996).

Sri Lankan exports to India reached the highest ever value of Rs 16,153 million (US \$ 167.7 million) in 2002 – far exceeding the Rs 6,266 million (US \$ 69.4 million) worth of exports in 2001 – an impressive growth of 158 per cent (142 per cent in US \$ value)². It is a matter of some debate if all this increase can be attributed to the FTA. But there are concerns being voiced by researchers and industry lobbies in both countries about the copper industry. The Indian Industry's stand is that cheap imports of copper from Sri Lanka have flooded the Indian market leading to a drastic reduction in the market share of local manufacturers. This is significant in that it was the ISFTA that caused a large number of copper industries to mushroom in Sri Lanka to cater to the growing Indian demand; at least 30 projects are currently operating in Sri Lanka, mostly controlled by Indian entrepreneurs. There are complaints that the copper being imported into India are not undergoing the requisite value addition for rightful classification as Sri Lankan copper.

In the case of Nepal, it should be emphasised

that more than the formal provisions of the trade treaty, the open border with India makes Nepal unable to protect its infant industries from the competition. In fact, India enjoys de-facto free access to the Nepalese market due to the open border accompanied by the latter's low tariff level and the virtual absence of non-tariff barriers. Nepal's many textile industries closed down in recent years due to substantial flow of unofficial and unrecorded imports from across the open border with India. For this reason, the real influence of this FTA is difficult to ascertain. Under the treaty terms, either country can export goods to the other, without respect to the origin of raw material inputs in the process, as long as there is some local value added in manufacturing. Second, the negative list is relatively very small. Nepal's many textile industries closed down in recent years due to substantial flow of unrecorded imports from across the border. A larger and more powerful country like India has a clear advantage in a trade agreement with a country as small as Nepal³. It must be noted then that countries that are larger than India, economically, may take advantage of such bilateral agreements just so. Diplomatic arm-twisting is possible at all levels of economic growth.

These cases highlight that India's attempts at securing free trade with Sri Lanka and with Nepal

² Sri Lankan Exports to India: Impact of Free Trade Agreement, July 26, 2003, Saman Kelegama

³ <http://www.nepalnews.com.np/contents/englishdaily/ktmipost/2001/apr/apr03/editorial.htm>, Issues and Opportunities in Trade By Binod K Karmacharya

have not been without their share of problems. They illustrate the need for thorough research on how an FTA will impact the small, medium and large players over the short and long-term. If not, trade agreements may easily run into troubled waters, defeating the very purpose of their creation – mutual economic benefit.

India has gone the “*whole hog on regional trade ties*”, as the Minister for Commerce and Industry, Mr. Kamal Nath enthusiastically told The Financial Express on November 18, 2004. Reflecting this resolve is the following list of trade agreements that India has negotiated over the last year:

1. The Comprehensive Economic Cooperation Agreements (CECA) with Mauritius planned.

2. Agreement to create South Asia Free Trade Agreement (SAFTA) with seven countries by January 2006.

3. Framework agreement on the Bay of Bengal Multi Sectoral Technical and Economic Cooperation (BIMSTEC), with Bangladesh, India, Myanmar, Sri Lanka and Thailand as members, was signed in February 2004.

4. A framework agreement signed in October 2003 to establish a Free Trade Area with ASEAN+3 (including South Korea, China and Japan) in ten years.

5. Talks were launched early in 2004 to sign an FTA with China. A joint study group (JSG) is at work.

6. A CECA with Singapore is in the pipeline. The December 2004 deadline for ratifying the agreement has been missed.

7. The framework agreement, which is a precursor to the CECA with Thailand, has been signed and an ‘Early Harvest Scheme’ has been in effect since October 2004.

8. The Japanese Minister for Economy, Trade and Investment (METI) Mr. Nakagawa made a proposal to the Indian Government about an Economic Partnership Agreement (EPA).

9. A Joint Study Group was set up to study the feasibility of an FTA between India and South Korea. The countries will hold three more joint study group meetings this year with the second one due in Seoul in April.

10. India and the Gulf Co-operation Council

have signed a framework agreement for economic cooperation in August 2004. The feasibility of an FTA is being considered. India-GCC trade is not limited to oil and oil products only.

11. Te agreement with Russia commenced when President Putin visited India in the first week of December. The negotiations presently focus only on arms trade, but it has been said officially that a CECA is on the drawing board.

12. Framework agreements for co-operation have been signed with the South Africa Customs Union (SACU) and Common Market for Eastern and Southern Africa (COMESA) in Africa. It will be at least two years before the deal is finalised.

13. India has also signed an MoU with eight West African countries called TEAM-9 (Burkina Faso, Chad, Equatorial Guinea, Ghana, Guinea Bissau, Ivory Coast, Mali and Senegal) in March 2004 for economic, commercial and technical co-operation.

14. A framework trade agreement was signed with Merco-sur (Brazil, Argentina, Uruguay, Paraguay) in June 2004.

15. India and Chile have signed a Framework Agreement on Economic Cooperation on the 20th of January 2005. It has also been agreed to set up a Joint Study Group to study the present status of the commercial and economic exchanges between India and Chile and to identify the potential for cooperation between the growing economies of the two countries as well as the bottlenecks both in goods, services and investment and to make recommendations for moving towards a Free Trade Agreement (FTA) or a Comprehensive Economic Cooperation Agreement (CECA) if such, an arrangement is found to be feasible.

16. Framework agreements for economic co-operation have been signed with the Andean Community, Caricom (Caribbean Community) and Central America.

17. A strategic trilateral group IBSA (India, Brazil and South Africa) was also formed. Talks are in progress. This agreement is seen to be significant, as India and Brazil have cooperated deeply even on the political front. This FTA is being mooted as strategically significant because it will link the largest countries in the South American and African continents with India, which

2.1 Singapore, India to sign pact after Asean meet

The Economic Times, Bangalore, Saturday, November 13, 2004

Singapore, 12
November 2004

Singapore will become only the second country to sign a comprehensive trade pact with India when they ink a deal after the Association of South East

Asian Nations (Asean) summit in Laos later this month, the government and local media said on Friday.

R e s o u r c e - p o o r
Singapore will receive concessions on its \$3billion worth of exports "almost immediately" after the Comprehensive Economic

Co-operation Agreement comes into effect, the Strait Times said.

India will gain greater access to Singapore's services industry while airlines in both countries would be looking at increasing flights and destinations, the paper added.

Trade between the two is worth about \$5billion, it said.

Commerce Minister Kamal Nath, who met his Singapore counterpart Lim Hng Kiang on Thursday, said the pact will be signed after the Asean summit in Laos later this month, The Strait Times said. --AP

* Created version of the original article.

2.2 India, Chile sign Framework Agreement on Economic Co-operation

Historic moment in bilateral relations, says Kamal Nath – big boost to trade with Latin America

Ministry of Commerce & Industry (New Delhi),
20 January 2005

[www.bilaterals.org, Posted January 22, 2005]

India and Chile have signed a Framework Agreement on Economic Cooperation. Shri Kamal Nath, Union Minister of Commerce & Industry, has described the signing here today as a historic moment, which would open new avenues to boost bilateral trade. The agreement is meant to promote expansion of trade by providing limited preferential access to each other initially. The Minister has said that the signing of the Framework Agreement is part of the strategy to boost India's exports and improve its share of world trade, which at present is less than 1%. India, of late, has been engaging itself with various regions/countries for preferential trading arrangements (PTA). Besides countries in her immediate neighbourhood, India has entered into a Preferential Trade Agreement (PTA) with MERCOSUR (Brazil, Argentina, Paraguay and Uruguay) which is likely to be operational in April, 2005 and Chile is a major

economy in the South American region. Negotiations for PTA with Chile will commence subsequent to the signing as per mutual consultations and would conclude by 2005.

It has also been agreed to set up a Joint Study Group to study the present status of the commercial and economic exchanges between India and Chile and to identify the potential for cooperation between the growing economies of the two countries as well as the bottlenecks both in goods, services and investment and to make recommendations for moving towards a Free Trade Agreement (FTA) or a Comprehensive Economic Cooperation Agreement (CECA) if such, an arrangement is found to be feasible. The Framework Agreement was signed by Shri Kamal Nath on behalf of Government of India and the Chilean Minister of Foreign Affairs, Mr. Ignacio Walker, in the presence of Prime Minister Dr. Man Mohan Singh and the Chilean President, Mr. Ricardo Lagos.

Chile has FTAs with USA, Canada, Mexico, EU and South Korea. It is also an associate member of MERCOSUR and has bilateral trade agreements with the Andean nations and Central America. It

is an active member of the Asia Pacific Economic Cooperation (APEC). It is also currently negotiating comprehensive FTAs with New Zealand and Singapore and negotiations are at preliminary stage for FTAs with China and Japan. India's exports to Chile were US \$ 80 million during 2003-04 and imports from Chile were US \$ 157 million in the same period. The total global imports of Chile were US \$ 17.94 billion during 2003. The region still has a huge potential for Indian exporters, as India's share was just 0.45% of the global imports of Chile during 2003-04.

Later, addressing Business Session in honour of Dr. Ricardo Lagos, Shri Kamal Nath said that considering the potential of the Latin American Region, the government had launched a

programme called "Focus: Latin America" to sensitise the Indian industry about the possibility of this region. "This has delivered welcome results and our bilateral trade with Latin America has grown by over 130% since the launch of this programme. The Framework Agreement with MERCOSUR was a step in this direction, and now the Framework Agreement with Chile is testimony to the genuine desire of ours to improve our commercial and economic ties with this region", he said.

2.3 Build institutional capacities for greater trade creation

Though there's much to gain, India should do proper homework for negotiating sensitive areas

The Financial Express - Insight - REGIONAL TRADE AGREEMENTS, Bangalore, Wednesday, November 17, 2004

VEENA JHA

Trade between India and Thailand has been steadily expanding in recent years. However, in 1997, due to economic problems faced by the East Asian region, Indian exports to Thailand declined. During 1998-99, although there was a slight improvement in the overall trade (\$594), yet Indian exports declined and Thai exports increased. The subsequent years have shown consistent increase in bilateral trade. The total bilateral trade in 1999-2000 increased to \$777.66 million, while during 2000-01, bilateral trade further grew to \$842.28. During 2001-02, bilateral trade grew to \$1,055.63 with an increase

of over 25% in total trade.

India's exports grew by 19.9% while imports grew by 34.5% during the year, with a balance of trade in India's favour. Bilateral trade crossed \$1 billion in 2002-03. The target now is \$2 billion, which is much lower than the potential of both countries. One of the instruments that can be utilised to achieve this potential is a free trade agreement (FTA) between the two countries. This is currently under active consideration on both sides.

The FTA has taken effect from September 1, 2004 with an 'early harvest scheme' under its 'framework agreement'. The scheme (delineated in Article 7) says a reduction of 25%

will come into effect from September 1, 2005 — with the final zero-duty regime on these items coming into existence from September 1, 2006. Currently, 82 items are covered by the FTA, and they account for 7% of Indo-Thai trade, which amounted to \$1.4 billion in 2003-04.

Initial simulations carried out with annual tariff cuts of 20% show that for the next few years the welfare effects would be positive. The effects would be more significant at the bilateral level, showing a higher possibility of trade diversion, where export growth is likely to be slower than import growth for India. At present, around 20% of Thai goods export goes to the US market, representing the

highest share of Thailand's exports. However, Thai export has been experiencing a declining share in the US market while some countries, notably China and Mexico, have seen their shares growing rapidly.

It is expected that the proposed FTA can help increase Thailand's exports to India and vice-versa by reducing tariff and non-tariff barriers between the two countries. Overall, there are some trade creation possibilities. The effects on an aggregate level are, however, minor and not statistically significant. Some industries, such as machinery and parts, especially electronics, however, may face significant trade adjustment costs.

Considering the emphasis given to services in the framework agreement, both countries propose to liberalise trade in services, especially information technology.

The fact that liberalisation of trade in goods may increase imports more than exports should not be a matter of concern.

The success of India's external sector reform can be seen from a sharp spurt in India's foreign exchange reserves to over \$125 billion. This is more than adequate from the point of view of 'self-insurance' against the possible impact of increased imports. The provision of cheap imported inputs as well as competition from Thailand may help the domestic industry to gear up better to the challenge of an FTA.

It should be noted, however, that the increase in export in many sectors will not be automatic. To capture potential benefits in the automobile sector, for example, India-based assemblers and suppliers may need to reorient their product lines to match consumer demand in the Thai market. They also need to improve their product quality, reduce costs and shorten delivery time.

Similarly, for agricultural liberalisation to bring tangible benefits, Thai and Indian negotiators need to cooperate with each other to reduce existing barriers, e.g., quotas, administrative measures, tariffs etc. This may involve dealing with complicated technical aspects in each area. That will take considerable time.

Finally, rules of origin need to be carefully designed to facilitate efficient preferential treatment. In addition to export, potential benefits to both countries are likely to arise from more investment, intensified competition in service sectors and improvement in regulatory regimes. More investment inflow into both countries should enable them to grow more rapidly, since FDI has always been a key growth engine. However, benefits in these areas will not be realised unless institutional capacities are sufficiently developed. This development process is likely to take a long time.

It is important that the scope of foreign investment covered in the FTA and the extent of protection guaranteed are well defined and suitable to the local environment. In the negotiation, it is also

important to make clear where the boundary of protection ends, so that there will not be excessive disputes that will be costly to settle. The service sector can also gain from greater competition, e.g. in construction, information technology, entertainment and the like. However, the balance between free and fair trade must be ensured, in particular in service markets where there are only few large players in the market.

Hence, liberalisation must be complemented by strong disciplines imposed on large multinational companies and cooperation between competition authorities. On this note, a more transparent and effective implementation of the domestic competition law should help to promote the cause.

In conclusion, an FTA between Thailand and India has the potential to increase trade and investment between the two countries and generate net benefits for both. The broad coverage of the FTA beyond goods, to include services and investment, will lead to a balanced outcome for both. Some of the key sensitive areas will need careful negotiations to schedule

coverage and sequencing that is appropriate to the development needs of both countries. Given the comprehensive nature of the FTA, many complicated issues will need to be addressed. It is essential that the Indian side is fully prepared for the negotiation process.

The writer is with UNCTAD. These are her personal views

2.4 Tread with caution for a credible benefit-risk balance

India does not benefit much from an FTA here; tariff preferences should be explored instead

The Financial Express - Insight - TRADE AGREEMENTS, Bangalore, Wednesday, November 17, 2004

GEETHANJALI
NATARAJ

The post-Cancun regional trading environment is characterised by a rapid process of liberalisation and proliferation of regional and bilateral trade agreements of varying sorts, scope and depth, which are under various stages of negotiation. Though India for long has been a campaigner for multilateralism and has acted as a responsible member of the World Trade Organisation, it has recently concluded several FTAs with countries in the region because it realises that whatever the implications and impacts of RTAs and BTAs, they are a reality and cannot be ignored. Many developed and developing countries, like India, have actively formed regional groupings to enhance their trade and development objectives.

The New Foreign Trade Policy announced by the government on August 31, 2004 has set a target of 2% for India in world trade by 2009. This may be possible to achieve given that exports have been growing at the rate of 20% in the last few years and India's share in global trade has been increasing. An alternate means to enhance this trade is through the bilateral route of signing FTAs with countries in the region.

One such initiative is the forming of the India-Mauritius Joint Study group (JSG) which has been set up to examine the modalities for a Comprehensive Economic Cooperation and

Partnership Agreement (CECPA) with that country.

Historically, India and Mauritius have had cordial economic and political relations. Moreover, 68% of Mauritius population is of Indian origin. Trade between the two countries has been on the increase for the last three years, and India's exports to Mauritius are growing at the rate of 13.34%, though only 0.32% of India's total exports go to Mauritius. Being a large economy, India's exports to Mauritius are far greater than its imports, which constituted a negligible 0.02% in 2003. India's imports from Mauritius are in fact growing at the rate of 2.15%.

An FTA with Mauritius will definitely benefit that small country, not only enabling it to make inroads into India, but also provide it with a base to explore other Asian markets, especially the Saarc countries. Mauritius is also contemplating FTAs with several other nations in the Asian region for the basic reason that it is set to lose when quotas are eliminated and the international trading environment becomes more competitive. So far, Mauritius had benefited from preferential access to western markets for its textiles and sugar, but may be unable to do so in the future.

It is envisaged that the agreement between India and Mauritius has a few advantages for India as well. First of all, it will help India to establish a niche for itself

in the small island country. Moreover, it is believed that India's corporate sector will get a boost, as Indian investors planning to invest abroad can benefit from the location, just off the south-east coast of Africa.

Indian investors can use the port as a base to tap markets in other continents, especially African markets. The reduction in tariffs will certainly help the Indian pharmaceutical industry, as drugs are one of the principal items of export to the Mauritius. India is also likely to benefit from cheap imports of textiles from Mauritius.

But there are not many positive signals emerging from the Indian side with regard to this FTA. In fact, the possibility of an India-Mauritius FTA coming through as of now seems a remote possibility. This is primarily for one reason: Mauritius is the centre for trade activity and a major international port. India is apprehensive of the fact that many countries may start routing their products into India through Mauritius and, therefore, the question of rules of origin becomes crucial. This is also the case with other FTAs, such as the India-Thailand FTA. Rules of Origin are an important issue for India, so that goods from other countries do not enter India through Mauritius and get an unfair advantage.

Moreover, there are no major benefits for India from

this FTA, as the scope for trade between the two countries is very low, Mauritian exports to India being on a declining trend. India would prefer to avoid trade diversion and also major revenue losses on account of the decreased level of tariffs to Mauritius. Rather, it is being suggested that it would be better if the two countries explored the possibility of giving tariff preferences to each other for items of export interest to each other.

As of now, large investment flows come into India through Mauritius because of tax concessions. Better investment relations would only come about if there is a two-way flow. There are many areas of cooperation where the two countries can join hands and enhance their trade and development opportunities, but trade diversion and rules of origin are major obstacles in the way of an India-Mauritius free trade agreement.

There is no harm in concluding FTAs with other countries in the region, especially if India is intent on achieving 2% share in world trade. But a cautious approach, especially in cases like the India-Mauritius FTA where the risks outweigh benefits, is a welcome measure.

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2.5 Safta will anchor Indo-Pak rapprochement: World Bank

The Financial Express, Islamabad, November 19, 2004

Islamabad, Nov 18

Ahead of Saarc commerce ministers meeting here next week the World Bank has said that expansion of trade relations between India and Pakistan and steps to implement the South Asia Free Trade Area (Safta) agreement could anchor the India - Pakistan rapprochement and spur intra-regional trade.

A World Bank report on global economic prospects 2005 said expanded trade between India and Pakistan creates new constituencies favouring reduced tensions and anchor peace.

The report published in

the local media here on Thursday said Safta would spur intra regional trade, provided that most products are included and the regional strategy is embedded in the larger trade strategy of gradually opening to international markets.

The report was released as the commerce ministers of the Saarc Countries poised to meet here on November 22 and 23 Indian commerce minister Kamal Nath was expected to arrive here on November 21 to take part in the meeting.

Commerce Secretary S K Menon will arrive here on Friday to take part in the

preparatory meeting of the Saarc commerce secretaries beginning from November 20.

In its report the World Bank said trade as a share of GDP remains smaller in South Asia than in any other developing region. Excluding India, growth in the region is projected to rise to 6% in 2004 from 5.6% in 2003, supported by robust manufacturing in Bangladesh and Pakistan, and strengthening services and agriculture sector growth in Nepal and Sri Lanka.

Donor assistance and incipient peace, combined with a recovery in agriculture

after a prolonged drought, helped boost real GDP growth in Afghanistan by an estimated 16%, excluding opium which accounts for about one-third of output.

Regional GDP is forecast to accelerate, expanding by 6.3% in 2005, before moderating somewhat in 2006. The acceleration is largely driven by an anticipated recovery of agricultural growth in 2005, it said. Long-term growth in South Asia is forecast to average about 5.5% during 2006-05 as the contribution to growth from the private sector accelerates, it said. (PTI)

* Created version of the original article.

2.6 Let's go on a long drive

The Economic Times, Bangalore, Guest Column, Monday, November 22, 2004

TK Bhaumik

IT IS a case of stealing the treasure house of imagination. This time the Confederation of Indian Industry (CII) has rallied itself into a mega partnership with the ministry of external affairs and governments of the Asean countries to organise an 8,000-km-long India-Asean car rally, to be flagged off by Prime Minister

Manmohan Singh on November 23 from Guwahati. It's undoubtedly a daredevil rally that has a plan to meander through many difficult terrains, before ending in the soothing landscapes of Indonesia. Except for some Northeast-based insurgents, everyone is mobilised behind the rally that incidentally happens to be a, first -of-its-kind, joint India-Asean cultural (rather

than a typically sporting) venture. The car rally, which is not competitive, intends to master the spirit of cooperation.

Asean's formation in 1967 was motivated by the security concerns arising out of the geo-political ordering effected by the Cold War. India's tilt in favour of the erstwhile Soviet bloc was viewed with suspicion by the original Asean-5 (Indonesia,

Malaysia, the Philippines, Singapore, and Thailand). On her part, India too had little time to assuage her eastern neighbours. To the Aseans, India was not in an Asia they could see.

A lot has changed since then, once again bringing India and Asean increasingly closer to each other. Particularly, the end of Cold War and collapse

of the USSR had melted the ice, and since then both India and Asean have taken significant steps towards each other to build a new bond of partnership. Finally, they're going to be wedded into a free trade agreement on which the Framework Agreement has been signed. The car rally comes in the wake of this agreement by way of an unnoticed coincidence. It was not conceived as a flag-off to the Indo-Asean FTA, but the car rally is likely to rekindle the trade talks and hopes.

Already, trade appears to be the central focus of the current India-Asean interface. With the Asean, other nations hardly talk anything but trade. Though born out of security concerns, the Asean is now about primarily trade and economic growth. Having arranged for Asean Free Trade Area (AFTA), they are now toying with the idea of a single market in line

with the EU's. **The car rally is fine, but India's ultimate engagement with the 10-member Asean has to be on trade, investment and economic matters, and that is something the Indian industry must keep in mind.** For the Asean countries, economy is the primary field of adventure. Economic prosperity is what rallies the interests. Hence, how should the car rally be followed up?

The bilateral trade between India and the Asean, almost \$10 billion, is yet to be vigorously rallied around. It's a slow moving vehicle. If Singapore and Thailand are excluded, trade between India and the rest of the Asean is nominal. Trade per route kilometre is only about \$1.25 million on an average. Per capita trade of the combined population is about \$5. Good news is that it has been growing in recent years. But both sides would need to concentrate on promoting mutual commercial interests that lie in faster trade growth.

I don't know how many of the rally participants are aware of that. Trade alone will not do, though. India and the Asean would need to look at each other as long-term partners in investment as well. The onus, I feel, is on the Indian side. We have to move faster on an expanded FTA.

The success of the rally will lie in its ability to invoke the much-needed spirit of wider economic partnership between India and the Asean. The Asean has nearly completed FTAs with China, Korea and Japan, and they are apparently working for a single market as well. India, too, is moving forward on its 'Look East' policy. Apart from Comprehensive Economic Cooperation Agreement with Singapore (which is an FTA-plus arrangement) and an FTA with Thailand, the Framework of FTA Agreement has been signed with the Asean. All that is great, given India's

long history of conservative trade regime.

India now has to think big and play in the league of the fast-moving economies. The logical conclusion of that process, already initiated, would be to take a proactive initiative towards forging a greater Asian Economic Union. Dr Singh spoke about it recently in the presence of the Asean leaders, and we think it is a feasible idea. To begin with, India should take the initiative of launching a single India-Asean market, something that will have a combined market size of nearly 1.6 billion people with an average per capita income of around \$600. What is significant is that the combined economic territory of India and the Asean is not only a fast-growing economic territory, but also a huge reservoir of resources of all types.

(The author is senior advisor, CII. Views are personal)

2.7 India's Political Stability Is A Great Asset

The Financial Express, JAPAN, Tuesday, November 16, 2004

A string of high profile delegations from Japan have visited India in the last few months. Two Cabinet ministers, some former Cabinet ministers and several CEOs of large Japanese transnational corporations descended on India recently. Another high profile business delegation will be in India on November 1, many of who are also participating in the India Chem exhibition beginning November 3, where Japan is the partner country.

Japan's Ambassador to India, Yatsukuni Enoki, has played a critical role in reigniting the economic and bilateral relations between the two countries over the last 10 months or so. He believes there is immense potential for growth of bilateral and economic relations between Japan and India. In an interview with VEESHAL BAKSHI, Mr Enoki talks about a variety

of issues and initiatives that will bring the two countries even closer in times to come. Excepts:

How does Japan view India as an investment destination in the backdrop of massive levels of foreign direct investment that is flowing into China from all over the world, including Japan?

China did attract huge investments but the significance and value of the Indian model should not be under estimated, Even when comparisons are made between India and China, Japanese business appreciates India from three aspects first is democracy. Second is India's sustainable development prospect as we believe that India is entering into a new phase of 7-8 per cent annual economic growth.

Only India has capacity to sustain a 5 per cent-plus

growth till the year 2050, which is very attractive. The third factor is **India's low dependency on external trade and foreign direct investment (FDI) which protects it from external shocks. Except the crisis of 1991 in India, the country keeps healthy condition even when there have been global economic crisis.**

I believe that Japan's Minister for Economy, Trade and Investment (METI) Mr Nakagawa proposed initiation of a dialogue between the two countries during his visit to India in August for signing of an economic partnership agreement (EPA). Could you throw some more light on this issue?

Mr Nakagawa made two important proposals to the Indian government. First Is organisation of annual economic ministers dialogue by alternating the venue

between Japan and India. It is very important. The second is to start dialogue among officials of two countries on economic partnership agreement (EPA). The foreign ministers of both the countries also agreed on starting preparation for setting up of Joint Study Group USG). It is not the negotiating body for EPA.

It is not a secret that India is ambitious in expanding EPA network in Asia, Singapore was first, then Thailand and now with ASEAN. Japan, likewise, is pursuing EPA networking with other countries and is in very serious negotiations with ASEAN countries.

Indian and Japanese business is already linked with each other so why not have a EPA between the two countries Instead of utilising India's EPA with other countries like Thailand.

[Mr. Enoki cites India's isolation from the world economy as one of the reasons for its attractiveness as a potential trade partner. He also notes, in the next section that India is signing many agreements with ASEAN and other countries. This, taken to its logical conclusion, points to the distinct possibility that if and when all the agreements being negotiated today come into effect, India will not remain as resilient to external shocks as it was, any more. With free trade being allowed with almost all the countries of the globe, the Indian economy will rise and fall with the crests and troughs of the world business chart.]

2.8 Finland seeks to boost biz ties with India

The Economic Times, Bangalore, Friday, February 4, 2005

Our Bangalore Bureau 3 February

She is perhaps the most good-looking minister for foreign trade and development we have seen in India. But Ms Paula Lehtomaki, the Finnish minister with the powerful portfolio mentioned earlier, is also as dynamic as as they get. She is in India – for the first time, but she can be excused as she is still only in her 30s. Ms. Lehtomaki has brought along with her a business delegation of over 30 businesspersons from Finland, perhaps the single largest from that country so far to India.

They are all here to try and strengthen business ties,

get partners for local markets and also for technological co-operation back in Finland. To a charmed audience attending a trade seminar in Bangalore, Ms Lehtomaki said: "I have been able to familiarise myself with the skills and opportunities which booming Bangalore and Karnataka are offering us by way of production, outsourcing, business alliances and purchase of productivity tools for knowledge management, as well as string support by the authorities. I have also noticed that there is healthy competition between various IT destinations here in India and I see that Bangalore is determined to maintain its leading position also in the

future."

She called for India and Finland to cooperate in several areas.

"We are a world leader in electronic banking to the extent that cheques have now been completely abolished. In addition, we have now connected all of Finland's schools to the internet. In many residential areas, broadband facilities are provided as a basic infrastructure and most of Finnish public libraries offer free access to the internet. Linux, the open source operating system, was developed by a Finn," said Ms. Lehtomaki, pointing out to the innovation and research that the country

encouraged.

Finland's population at about five million is much less than that of Bangalore, which is estimated to be seven million now. However, this tiny country with a tiny population manages to have exactly the same share of world trade as India; 0.7%

Business delegates from several organisations showed interesting setting up manufacturing plants close to where OEMs were coming up. Elcoteq. The Finnish handset maker has set up a plant near Bangalore and if Nokia decides to do the same, several Finnish manufacturers will follow to feed and complete the ecosystem.

* Created version of the original article.

2.9 India, US discuss FTA on services

[www.bilaterals.org, posted: The Hindu, September 15, 2004]

New Delhi, Sept. 15. (PTI): The United States today said it discussed with the Indian authorities the issue of forging a bilateral Free Trade Agreement on services but felt that more study was needed to be done before any commitment was made.

"We did discuss the issue of FTA on services between the two countries," US Under Secretary for Economic, Business and Agricultural Affairs, Alan P Larson said, adding that further study will have to be carried out on this proposal made by the Indo-US joint business council particularly on retail, financial and telecom services.

Asked if US agreed to the idea in-principle,

Larson said more work was needed.

Larson, who is here as part of the ongoing Indo-US economic dialogue, had one-to-one meetings today with Planning Commission Deputy Chairman Montek Singh Ahluwalia, Commerce Minister Kamal Nath and Finance Secretary D C Gupta.

On WTO issues, Larson maintained that the framework agreement was "very consistent" with India's interests in agriculture, especially in protecting poor farmers.

Regarding the dismantling of quota system on textiles, he said US was confident that it would happen as scheduled by January one 2005. Countries like China and India stand to benefit from it.

2.10 New opportunity in Latin America

Emergence of the Left in South America has opened up new business opportunities for India. Indian business should seize this opportunity and intensify their export flow to South America, says R Viswanathan.

The Economic Times, Bangalore, Guest Column, Friday, December 3, 2004

IN THE last week of October, the Left won a historic victory in Uruguay and Tabare Vazquez became the President. The two traditional political parties which ruled alternately in the last 170 years, were out of power for the first time. The new coalition includes former Tupamaro guerrilla leaders, who won impressive victories despite the criticism that their ideologies were outdated. Uruguay, considered as the Switzerland of Latin America, with its small and relatively affluent population, has gone through economic crisis in the last three years and one third of its population has been pushed below poverty line. It is they who caused the change.

What has happened in Uruguay forms part of an emerging pattern of historic shift in South America. In Venezuela, leftist President Chavez, who came to power in '99, won a thumping majority in the state elections held in October '04, on top of his resounding win in the August Recall Referendum. He has consigned to near

oblivion the two major political parties which had held power in the past 20 years.

In November '02, Lucio Gutierrez, a leftist military man won the elections in Ecuador, defeating Alvaro Noboa, the country's richest man. Gutierrez won despite the stigma attached to his unsuccessful bid to overthrow the elected government through a coup in January 2000, in the same way as Chavez did in Venezuela.

Election of Lula from the Workers Party in October '02 in Brazil was the defining moment for Latin American Left. He was almost written off after having lost the previous three elections. Vested interests both inside and outside Brazil carried out a vicious campaign predicting doom and scaring voters and foreign investors. Lula has disproved all these predictions and has proved that it is possible to achieve a balance between the inclusive development agenda for the poor in the streets of Rio and the fiscal

and monetary discipline demanded by the Wall Street. The example of Brazil has boosted the confidence of the Left in South America, neutralised the Left-baiters and has laid the foundation for the new Left. The new finance minister of Uruguay announced that he plans "to follow the example of Lula", as part of his government's assurance to the investors.

Chile and Argentina also have Left-of-Centre governments. The Centre-Right government of De la Rúa in Argentina had a premature exit in December '01, unable to continue amidst popular uprisings caused by the socio-economic crisis. His government lasted only two years.

The leftist leaders have come to power tiding on the wave of anti-neo-liberalism. In the '80s and '90s, South America opened up their economies, undertook privatisation and followed the line advised by the "Washington consensus". Argentina went to the extreme of privatising even their petroleum company. But

these had not helped solve the socio-economic problems, but only aggravated them. The voters were disenchanted with the neo-liberalism and wanted to give a chance to the Left. They rejected those traditional political elites who stood for "business as usual".

The most telling example is Venezuela, which has the potential to be one of the richest countries in Latin America. It exports three million barrels of oil per day and is called the Saudi Arabia of Latin America. If the earnings were simply distributed, each of the 24-million population would get over \$10,000 per year. Besides petroleum, Venezuela has huge reserves of minerals and large and inexpensive hydroelectric power capacity. Despite these, 50% of the population is below poverty line. Chavez is a product of this incredible situation.

The rise to power by the Left has reconfigured the power equation in Americas. The leftist governments attach importance to collective strength through

formation and strengthening of the regional groups, Mercosur and Andean Community. They signed a FTA in October '04 between the two groupings, bringing about a South American Free Trade Area. These countries have also decided last month to create a South American Community of Nations, which plans to include later Chile, Guyana and Suriname. **These governments try to reduce the dependence on North America and diversify their trade and cooperation partners. The trendsetter for this is Chile, which does more trade with Asia than with Nafta or EU.**

The emergence of the Left has coincided with the aggressive penetration of the South American markets by China, a major buyer of their commodities and an im-

portant supplier of goods. Chinese exports to Latin America in '03 were \$17 billion, 10 times the exports of India. China is the second largest trading partner of Chile. The growth of South American countries in the past two years is partly due to the large buying of agro and mineral products by China and the rise in prices of commodities generated by the Chinese thirst. There has been extensive investment by China in these countries; the most notable being the \$1 billion already invested in the Venezuelan oil sector and the \$2 billion to be invested in a steel plant in Brazil.

The leftist wave in South America has opened a window of opportunity for Indian business. These governments want to reduce cost of health care

and provide affordable medicines to the poor by importing pharmaceuticals from India. They are impressed by India's IT success and want to follow our example in human resource development. The importers look to countries such as China and India for less expensive products. Mercosur and Chile are keen to conclude PTA with India. The presidents of these countries want to visit India with business delegations. The historic visit of President Lula to India in January '04 with a large business team has opened the eyes of the Brazilian businessmen. About 80 Brazilian companies took part in the India International Trade Fair last month. Never

before there was such interest in India among Brazilian business.

Indian business should seize this opportunity and intensify their export flow to South America. Besides exports, they should look at the possibilities for investment and JVs there. TCS, Reliance, Tata International, M&M are some which have realised this and are setting up operations in Uruguay using it as a hub for South America. Indian pharma majors are already well established in Brazil. For others who want to do business with South America, this is the best time to make a move.

(The author is head of the Latin America division of the ministry of external affairs. Views are personal.)

* Created version of the original article.

2.11 AP ryots to till land in Africa

The Economic Times, Thursday, November 18, 2004

Hyderabad

ANDHRA Pradesh government has come up with a novel idea to tackle the agrarian crisis — 'exporting' farmers to far-off foreign lands in search of prosperity.

The state government has signed Letters of Intent (LoI) with Kenya and Uganda to send farmers in batches to cultivate lands in the two east African nations in, what is being billed as a 'win-win arrangement'.

"We've signed the LoI

with Kenya for 50,000 acres and with the Uganda Investment Authority for 20,000 acres. Our farmers will work there as entrepreneurs and are allowed to repatriate their earnings back home/advisor to the state government on

investment promotion C C Reddy said.

As per the plan, the land will be given to farmers' co-operative society from AP on a 99-year lease to enable them develop it using their expertise and prosper in the process. —PTI

* Created version of the original article.

[This decision to 'export' farmers to African countries to cultivate the land has been met with some degree of surprise by readers. There are a lot of factors that will need to be taken into consideration before implementation, and it is not known if the due intelligence has been consulted or stakeholders' needs looked at. This also makes clear, in a very direct way — if any clarification was required at all — that trade deals that are formulated by political leaders/trade negotiators have a very deep-rooted impact on lives at the grassroots. When one considers that about 72 percent of India lives in villages, such decisions at made the upper echelons of governance need much more than a political motive to enter an agreement with another country — any other country.]



3.0 Millstones before reaching Milestones

When there are so many trade agreements being planned with different parts of the world, there are also bound to be many different kinds of problems in negotiating each. Firstly, the various lobbies that influence the government's negotiation position on these agreements are also not in agreement about their stand. In India, the two leading industry **lobbies**, viz. Confederation of Indian Industry (CII) and Federation of Chambers of Commerce and Industry (FICCI) take strikingly differing positions on the Indo-Singapore CECA alone.

It is not only industrial lobbies that are arguing over the acceptability of trade agreements, with their motives of profit making; **research bodies**, that are supposed to be non-partisan and provide intelligence to the policy-makers in matters of international economic and political relations, 'lock horns over FTAs'. The inconsistency of the research base of the country could lead to confused decision making or one depending on which party was able to influence the government better. An example is the Indo-US FTA, which was first being negotiated in services only. Deviating from this position, the US government has now stated that it would like the FTA with India to be more comprehensive and cover other sectors as well.

Why this decision came as suddenly as it did is something that has not become apparent.

These are only the beginnings of the problems that arise when negotiating trade agreements. Probably the most contentious issue surrounding these agreements is that of the '**rules of origin**' (RoO).

"Rules of origin have become an essential part of any trade policy regime, for commercial policy tools, more often than not, discriminate among countries. Administration of quotas, preferential tariffs, anti-dumping actions, countervailing duties, government procurement, etc, requires clearly defined rules of origin. The rules of origin are also important for application of labelling and marketing requirements as well as for collection of trade statistics. But, the process of determining origin might have been relatively easy and dispute free until recently, because production of individual commodities rarely involved more than one country. It is the growing internationalisation of production and consequent involvement of more than one country in the production of most commodities that made the origin of commodities a contested terrain." (CDS WP 353, Dec 2003)⁴

It is almost rare today that a product being exported, is made wholly by the exporting country,

⁴ Centre for Development Studies, Tiruvananthapuram, Working Paper 353 December 2003. *The WTO Agreement on Rules of Origin: Implications for South Asia*. K N Harilal and P L Beena

that all the inputs in the manufacture are domestically acquired. This coupled with the other recent trend of countries offering preferential tariff rates to certain other countries raises important trade related issues. It has become vital for any importing country to know precisely where the product is coming from to be able to make sure that the tariff concessions that it is giving to one trading partner is not being taken advantage of by another third country by routing its own manufactures through the agreement member country.

India specifies three very strict RoO. First and most important; a minimum percentage of the value addition in the product to have occurred in the exporting country. Second; change of tariff heads – classification norms. Third: specification of the kind of value addition. There have been problems with all the Asian countries that India is negotiating FTAs with, regarding these stringent rules. For long, India refused to budge, but it has finally conceded, and agreed to align its RoO with ASEAN standards.

Treaty shopping is another problem that has brought agreement negotiations to a halt. Treaty shopping becomes an issue when one or both of the agreement member countries has very liberal tax provisions or is a tax-free destination. Talks with the Gulf Cooperation Council (GCC) and with Mauritius were met with these problems.

India signed a Double Taxation Avoidance Treaty (DTAT) with Mauritius in 1982 and renewed it ten years later. This was a measure that was expected to boost the economies of both countries by encouraging investment flows. With the help of this treaty, Mauritius was able to call 'financial services' its most important economic activity after tourism. India has more than 50 agreements of this nature with different countries, 16 of which are identical to the one signed with Mauritius. But Mauritius seems to be the preferred route for investments coming to India for a range of reasons. Geographical proximity and the fact that persons of Indian origin control the Mauritian government are significant factors⁵. Mauritian lawyers and

accountants offer complete secrecy to clients and the currency is completely convertible. Salubrious climate and the golden beaches are, of course, the icing on the cake.

"At the core of the controversial DTAT between India and Mauritius is the incidence of what is euphemistically referred to as 'treaty shopping'. In essence, this means that foreign investors in third countries with relatively high rates of taxation on income/profits earned by companies and/or capital gains accruing from transactions in shares and securities are using the Mauritius route to bring investments to India by taking advantage of the DTAT."⁶ After the abolition of the capital gains tax in July 2004, the potential benefits to any investor were significantly diluted, but the short-term capital gains are still taxed at 10%. This causes treaty shopping to continue unabated as Indian investors continue to park their money in Mauritius. The loophole is still not plugged, though there are negotiations between the two governments to take a second look at the DTAT. These suggested changes are part of the Comprehensive Economic Cooperation Agreement (CECA) with Mauritius. A joint study group has been constituted to look into this. In fact, a model double taxation avoidance agreement that the Finance Ministry has formulated may be implemented with all the other countries with which India has such tax related agreements. One of the changes suggested are that the basis of the taxation be changed from 'residence' of the firm to the 'source' of the funds. There may also be a 'limitation of benefit' clause so that the benefits of the DTAT are confined to 'genuine' residents only. The two concerned countries may decide to co-operate on information collection on tax matters and share databases to keep track of treaty shoppers.

These are again, issues that need to be looked into keeping specific countries in mind. It may not be wise to formulate one common policy for all the 50 countries that India has tax treaties with.

⁵ *The Hindu Business Line*, Tuesday, 14 December 2004, Opinion – Taxation, Treaty Shopping – Plugging the Mauritius Loophole, Paranjay Guha Thakurta (<http://www.thehindubusinessline.com/bline/2004/12/14/stories/2004121400320800.htm>)

⁶ See footnote 3

3.1 Fools rush in where angels fear to tread

Tread warily on the Indo-Singapore Comprehensive Economic Cooperation Agreement (Ceca)

The Financial Express, Bangalore, Saturday, November 13, 2004

TK Bhaumik

THE idea of an Indo-Singapore Comprehensive Economic Cooperation Agreement (Ceca) was received with great excitement when it was first mooted jointly by the heads of the two governments. The joint task forces (JTF), setup to study the scope and lay the broad structure, had also acted with determination and speed. The report of the task force was produced within the prescribed deadline. Since then, however, the spur seems to have been lost somewhere during the negotiation process.

The deadlines for conclusion of negotiations have been missed several times and negotiations are continuing. I am not particularly worried about missed deadlines. On the contrary, neither the Singapore side, nor the Indian side, should rush to conclude the negotiations. The negotiations should result in a kind of agreement that is beneficial to both and something that serves the mutual interests. To achieve this objective, prolonged negotiations should not be

viewed as a sign of difficulties.

Most free trade agreements (FTA) negotiations take time and are not concluded in a rush. The North American Free Trade Agreement (Nafta) negotiations, for instance, took about seven years. Good agreements are usually well-negotiated agreements that take care of all the concerns. What is of concern to me is, however, visible signs of negotiating fatigue, and some kind of frustration, about the Ceca.

The hitch has been presumably around the rules of origin criteria in particular, but there are more fundamental issues involved in the current deadlock on negotiations that need to be understood.

First, the idea of Ceca was imposed from the top. It is not an idea whose need was felt at the bottom layers of the stakeholders. For the latter, it was given to accept and assimilate. Second, the joint task force also was left with little time for a wider consultation with the cross-section of stakeholders.

The JTF was more

concerned about the deadline than consultations. **When the negotiations began, the Indian side of the stakeholders were asking "Why Singapore?"**

The idea of Ceca was the first ever bold initiative, after the announcement of India's Look East policy in 1992, and a political signal to India's commitment to pander to the expectations of the Asean leaders. Earlier, India had committed itself to bring its tariffs down to Asean level. **The choice of Singapore as a Ceca partner was a matter of official recognition of the role played by Singapore in the recognition that we had received from the Asean in the post-Cold War period. The idea of Indo-Singapore Ceca is, in this context, a political, though not politically motivated, decision.** There were, of course, genuine strategic angles as well in the choice of Singapore as a Ceca partner.

In retrospect, two things can be said about the Ceca. First, it is an FTA-plus agreement, meaning thereby that the two economies had decided to engage themselves

in total economic integration and much beyond what was possible in a normal free trade agreement. The idea was to extend the integration process to almost all aspects of bilateral economic relationship.

This brings us to the second aspect of Ceca i.e. Its WTO-plus character. It again means two things. One, it talks of areas such as investment, competition policy, environment, etc that are not currently under the WTO. Two, in those areas where there are WTO agreements, it talks of extensive forms of cooperation agreements e.g. WTO-plus agreement on Trips. From this angle, **Ceca is highly ambitious and broad-based in scope; something for which the Indian stakeholders are probably not ready.** They are not quite clear as to how Ceca is going to benefit them.

So far as the FTA component of Ceca is concerned, the feeling here is that if free trade has to take place, a higher value addition norm has to be in place to keep the possible flooding of goods from third countries under check. This has given

rise to a hurdle, with India insisting on 40% value addition norm against Singapore's insistence on 30%.

What is much more important to negotiate than value addition norms, however, is the formula you choose to calculate value addition. Both should observe the same, mutually agreed, formula. This, however, is not getting attention it deserves.

But there are other issues as well in Ceca negotiation. For instance, there are negotiations involving investment, competition policy, government procurement, trade facilitation and a plethora of services and the associated issues. Most of us are not aware of the status of negotiations on these issues. Some of the issues mentioned in the JTF are seemingly getting overlooked.

A particular aspect in this context is the idea of India-Singapore Investment Fund of \$10 billion, that according to the JTF report, was to be set up and managed by the private sector in both the countries. The idea seems to be getting a quiet burial, even as this is what we were able to manage in return for free trade. For our own benefit, the **negotiations on non-trade issues need to be allowed**

sufficient time and greater display of transparency. We need to remember that Ceca is FTA-plus, meaning FTA is just one component. The rest of the issues are of no less importance, and we cannot afford to be relaxed on these. Hence, the need to be patient with Ceca.

The writer is senior advisor, CII. These are his personal views.

* Created version of the original article.

3.2 'Attractive' partner, but look before the plunge

A carefully crafted agreement with clear, predictable, strictly enforceable rules of origin needed

The Financial Express - Insight - TRADE AGREEMENTS, Bangalore, Wednesday, November 17, 2004

AMIT MITRA

The Comprehensive Economic Cooperation Agreement (CECA) between India and Singapore has to be viewed in light of the fast-growing importance of FTA paradigm. Recent spurt in such agreements worldwide and upswing in the share of intra-regional trade make it imperative that India too plays a leading role in this process. This is, of course, not to suggest any undermining or dilution of its priority and commitment for multilateralism.

If India has to take a plunge into the world of

FTAs, then Singapore emerges as one of the 'attractive' partners. The reasons are not far to seek. Singapore has progressively liberalised over a relatively short period of time, while fostering democracy, respect for the rule of law, and putting in place a strong, transparent and predictable regulatory framework. Its exemplary economic strengths are based on prudent macro-economic policies and remarkable openness to international trade. It uses very few border measures (only six tariff lines are subject to import duty) and makes very little use of

measures like anti-dumping duty. 75% of Singapore's 'standards' are aligned to international standards. Further, it is ranked as the most competitive economy among countries with population below 20 million, and it is also regarded as the world's second freest economy.

It is obvious that any free trade agreement with Singapore would help India attain a "benchmark", and raise our preparedness and ability to negotiate quality FTAs in future. Indeed, CECA is a significant milestone not only in India's FTA-initiatives, but also in

its 'Look East' policy. **A carefully-crafted CECA would have the benefit of expanding space for bilateral trade, investment and economic cooperation.** It would improve connectivity between India and Singapore not only for flow of merchandise and investment, but for the movement of professionals, talent and ideas as well.

Take the case of two-way trade which currently stands at just over \$4 billion. Ficci's projection is, provided the right policies are in place, the bilateral trade would go up to \$10 billion within three years. When it comes to

investment, the scope is really enormous because CECA-induced larger markets, more competition and enhanced policy credibility would amplify the investment opportunities. And this is going to be a two-way process depending on the respective country's strengths.

As it stands, in terms of cumulative FDI approvals in India (from January 1991 to July 2004), Singapore's 11th rank is none-too-impressive; but things are getting better as the island nation has improved its position to 'fourth' in the first seven months of this year. Singapore's FDI in India is projected to rise of \$1 billion within three years of signing the comprehensive agreement.

Temasek Holdings has just picked up a 7% stake in our leading basmati rice exporter, Satnam Overseas, this being the fourth big investment by the Singapore firm in Indian companies, including ICICI Bank, Apollo Hospital and Matrix Laboratories. In addition, Singapore businesses are

seeking joint ventures in India in the areas of biotechnology, pharmaceuticals and information technology.

Similarly, **Singapore is likely to attract Indian investment in knowledge-driven activities such as healthcare, education, creative industries and advanced IT. Lower tax rates, flexible wage system, skilled manpower, strong supply chain, and world-class infrastructure are only few of the advantages that India Inc. can bank on while doing business in Singapore.**

Again, a number of already concluded FTAs and several others under negotiation by Singapore, would open up fresh trade avenues and business opportunities for nearly 1,500 Indian companies operating there. And evidently, this is going to be an eminently successful illustration of the trade-investment nexus in the context of regional integration.

However, several key points have to be kept in mind to ensure the success and sustainability of CECA.

First, the potential advantages from the agreement could be wiped out in the event of possible "trade deflection" which occurs in the absence of strong and effective Rules of Origin (ROO). Hence, to effectively minimise the risks of imports from third countries, appropriate ROO would have to be devised and strictly enforced. Broadly, it is necessary to base the ROO on the simultaneous application of (a) value addition, (b) change in tariff classification, and (c) simple operations defined as 'non-qualifying'.

In order to plug any possible loophole, adoption of all the three criteria together is necessary which would provide a set of clear, transparent and predictable rules to use in conferring 'origin'. Derogations from this general principle in terms of product-specific ROO should be kept at the minimum, and should be allowed only after adequate research and intensive consultations with the industry.

Second, since Singapore is not in a position to extend

any worthwhile duty concession to India in goods (because of its practically zero-duty structure), we have to insist for significant non-reciprocal gains in services and investment. The area of services is particularly important from India's point of view both because of our competitive advantages and due to the large imports of services by Singapore (over \$27 billion in 2003).

We have to negotiate hard and obtain more liberalised and easier access to Singapore market for our service-providers and professionals. In other words, Indian business will feel more comfortable if Singapore could go few "extra miles" within the framework of CECA to allow more liberalised access for Indian service-suppliers. This will go a long way in ensuring a "win-win" outcome for both the partners.

The writer is secretary-general, FICCI

The preceding two articles are on the Indo-Singapore CECA, one by a Confederation of Indian Industry (CII) senior advisor and the other by the Secretary-General of Federation of Indian

Chambers of Commerce and Industry (FICCI). The following table juxtaposes the points of differences between the stances of the two representative organisations.

CII says...	FICCI says...
When the negotiations began, the Indian side of the stakeholders were asking "Why Singapore?"	If India has to take a plunge into the world of FTAs, then Singapore emerges as one of the 'attractive' partners. The reasons are not far to seek...
The choice of Singapore as a Ceca partner was a matter of official recognition of the role played by Singapore in the recognition that we had received from the Asean in the post-Cold War period. The idea of Indo-Singapore Ceca is, in this context, a political, though not politically motivated, decision.	It is obvious that any free trade agreement with Singapore would help India attain a "benchmark", and raise our preparedness and ability to negotiate quality FTAs in future... A carefully-crafted CECA would have the benefit of expanding space for bilateral trade, investment and economic cooperation.
First, the idea of Ceca was imposed from the top. It is not an idea whose need was felt at the bottom layers of the stakeholders. For the latter, it was given to accept and assimilate. Second, the joint task force also was left with little time for a wider consultation with the cross-section of stakeholders.	[That FICCI assumes India wants this CECA is seen from sweeping statements like]... Singapore is likely to attract Indian investment in knowledge-driven activities such as healthcare, education, creative industries and advanced IT.
Ceca is highly ambitious and broad-based in scope; something for which the Indian stakeholders are probably not ready.	Lower tax rates, flexible wage system, skilled manpower, strong supply chain, and world-class infrastructure are only few of the advantages that India Inc. can bank on while doing business in Singapore.
...negotiations on non-trade issues need to be allowed sufficient time and greater display of transparency	[FICCI highlights only the economic advantages of this CECA]

3.3 Think-tanks lock horns over FTAs

The Financial Express, Bangalore, Thursday, October 28, 2004

AMITI SEN
New Delhi Feb 6

Negotiation on the second phase of the Indo-Thai free trade agreement (FTA), which is to replace the early harvest scheme in September 2006, has hit a familiar road-block. Disagreement over the ideal formula for determining rules of origin (ROO) of a product, which had delayed the implementation of the early harvest scheme, has revisited officials negotiating the second phase of the FTA. An agreement on ROO is an important part on any trade agreement as it is used to determine whether a product originates from the participating country and qualifies for duty-free treatment.

Thailand, like before, is stressing the use of percentage value addition

method for determining ROO. As per the method, any product, which has at least 40% value addition from the participating countries and at most 60% imported inputs, could be considered to be originating from the participating countries.

India feels that the percentage value addition method is not enough to ensure that an imported product is not re-exported by a country as it does not stress physical value addition. If input costs like wages and rent are high, then it could artificially increase the value of the final product even if very little physical value addition has taken place and it could be passed off as originating from the participating country. To ensure adequate physical value addition, India suggested that in addition to

the value added method, an additional criteria of change in tariff heading should be imposed. Under this method, substantial transformation is said to occur if a good is classified to a different tariff heading than that of its component materials after production. Therefore, if the value of a product processed in a country goes up because of inputs like wages and rent, the tariff heading of the final product will not be much different from the un ported product. It would thus not be considered to be originating from the country.

Thailand agreed to accept the use of both methodologies for determining ROO in the early harvest scheme after prolonged negotiations. However, in the on-going FTA negotiations, it has gone back to its earlier stand of having just the percentage

value added method as the determinant of ROO.

Officials said that this was unacceptable to India as it used the change in tariff heading rule in all its trade agreements.

The FTA between India and Thailand is being implemented in two phases. The first phase, also known as the early harvest scheme, took off in September 2004 under which tariff reduction on 82 agreed items would take place in three years time.

In the first year, tariffs would be reduced by 50% on the 82 items and in the second year by 75%. From September 1, 2006, both countries would have duty free regime on all these items.

The second phase would begin from then onwards and the two countries would have a free trade regime by 2010.

* Created version of the original article.

3.4 US Opposes Limited FTA with India

The Economic Times, Bangalore, Wednesday, February 9, 2005

New Delhi, 8 February

United States today said it was against entering into a limited free trade agreement with India and any bilateral FTA will have to be

comprehensive. "I am not against free trade agreement between US and India, but it would have to be comprehensive," US ambassador to India David C Mulford said at an

interactive session with the Forum of Financial Writers. "I do not think it is practical and desirable to have a FTA sector by sector," he said. Mulford's observation came in the wake of Indo-US

Business Council's proposal for a FTA between the two countries in the services sector. He said an agreement like North American Free Trade Agreement (Nafta) with India would be hugely

ambitious. Mulford said US was very supportive of India's goal to be a regional and global power and underlined steps it must take towards this end.

"India has a very aggressive vision for itself that is dependent on producing continuing economic growth at a very significant level. To do that, world class infrastructure is needed. Infrastructure has to be put on war footing," he said. "India has very sophisticated financial markets. They still need liberalisation and

development because many of the things that India wants to do, especially infrastructure financing, can only be accomplished if it allows private markets to develop, Mulford said.

The US ambassador said India needs to transform rural economy, reform real estate and retail sector, put in place strong intellectual property regime apart from rationalising subsidies. He said large scale foreign investment in retail would bring efficiencies in the system that products thereby "empowering the consumer"

and increasing standards of living. "Subsidies in India are significant as compared to gross national product...in many cases these subsidies are not going to those they are targeted at. Reducing subsidies will free up resources for the government to fund the social sector," Mulford said. He said India still has large barriers to foreign direct investment (FDI). Movement in India on reforms is likely to be slower be less direct, Mulford said. "Coalition (government) makes it more difficult to have a clearly defined

programme of reform because you have to modify what you really like to be doing to satisfy other member of the coalition who may not be as willing to support reforms," he said. "there is significant reform going on and some of these reforms look they can be done. If they can be done they will have their own internal dynamics and will create further change," Mulford said. He said tax reforms like VAT would create a single market all over India and make it a more attractive FDI destination. —PTI

* Created version of the original article.

3.5 Phase II of Indo-Thai FTA talks hit ROO bump

The Financial Express, Bangalore, Thursday, October 28, 2004

AMITI SEN
New Delhi Feb 6

Negotiation on the second phase of the Indo-Thai free trade agreement (FTA), which is to replace the early harvest scheme in September 2006, has hit a familiar road-block. Disagreement over the ideal formula for determining rules of origin (ROO) of a product, which had delayed the implementation of the early harvest scheme, has revisited officials negotiating the second phase of the FTA. An agreement on ROO is an important part on any trade agreement as it is used to

determine whether a product originates from the participating country and qualifies for duty-free treatment.

Thailand, like before, is stressing the use of percentage value addition method for determining ROO. As per the method, any product, which has at least 40% value addition from the participating countries and at most 60% imported inputs, could be considered to be originating from the participating countries.

India feels that the percentage value addition method is not enough to

ensure that an imported product is not re-exported by a country as it does not stress physical value addition. If input costs like wages and rent are high, then it could artificially increase the value of the final product even if very little physical value addition has taken place and it could be passed off as originating from the participating country. To ensure adequate physical value addition, India suggested that in addition to the value added method, an additional criteria of change in tariff heading should be imposed. Under this method, substantial transformation is

said to occur if a good is classified to a different tariff heading than that of its component materials after production. Therefore, if the value of a product processed in a country goes up because of inputs like wages and rent, the tariff heading of the final product will not be much different from the unported product. It would thus not be considered to be originating from the country.

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Officials said that this was unacceptable to India as it used the change in tariff

heading rule in all its trade agreements.

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under which tariff reduction on 82 agreed items would take place in three years time.

In the first year, tariffs would be reduced by 50% on the 82 items and in the second year by 75%. From September 1, 2006, both

countries would have duty free regime on all these items.

The second phase would begin from then onwards and the two countries would have a free trade regime by 2010.

* Created version of the original article.

3.6 Singapore Ceca hits a roadblock

The Financial Express, Bangalore, Thursday, October 28, 2004

KG
NARENDRANATH &
P VAIDYANATHAN
IYER

NEW DELHI, NOV 10: The proposed Comprehensive Economic Co-operation Agreement (Ceca) between India and Singapore has hit a bump. The Singapore government has made out a strong case for product-specific relaxation of the rules of origin (ROO) criteria for over 480 items of trade in sectors including chemicals, petrochemicals, food processing, electronics and automobiles.

It has rejected India's proposal for simultaneous application of all the three ROO criteria for these items, saying they are "sensitive" as far as Singapore's economy is concerned.

With the Indian government firmly resisting the move, Ceca negotiations are now deadlocked and the December 2004 deadline for ratifying the agreement may not be met.

According to government sources, Singapore's insistence on waiver from the 'generic' ROO criteria for a number of products could result in gross violation of the principle of the rules of origin, i.e., avoidance of trade deflection.

The three criteria of rules of origin are: fixed level of minimum value addition in the relevant country, change of tariff heading (CTH) at the 4-6 digit level as per the WTO's harmonised system (HS) code (defining the product) and specifications of the

kind of value addition. These criteria are inter-related. For example, a CTH could, in practice, require an obligatory degree of value addition.

Sources said that Singapore, which has already agreed to a 40% domestic value addition and a CTH at 4-digit level for the generic ROO criteria for the FTA with India, has pitched for a special dispensation for the 480-odd items. During bilateral negotiations with New Delhi, Singapore has said that it would comply with any of the three ROO criteria for these items, instead of complying with all the three criteria.

India, on the other hand, is learnt to have stuck to the three criteria formula, which the country has generally maintained for all free/

preferential trade pacts and Cecas being negotiated. New Delhi thinks that it is crucial to have full compliance with ROO criteria because of Singapore's large exposure to transit trade.

"The value addition criterion alone may not serve the purpose as it factors in labour cost and profits as well. Nominal manufacturing activities like cutting, repackaging, mixing etc cannot be reckoned as sufficient value addition, even if the percentage norm is met," said a commerce department official.

Ceca, which comprises investment as well as trade in goods and services, is designed to include a free trade agreement (FTA). India is keen to extract a liberal regime on services from Singapore

* Created version of the original article.

3.7 India turns down Mauritius FTA proposal

Govt Apprehensive That Pact Could Aid Import Duty Evasion, Moots Preferential Trade Agreement

The Economic Times, Bangalore, Tuesday, November 16, 2004

**G Ganapathy
Subramaniam**

New Delhi 15 NOVEMBER

India has rejected a proposal from Mauritius for a free trade agreement (FTA) due to apprehensions that it could turn into a channel for goods from other countries to evade import duty in the Indian market.

Stipulations related to rules of origin would not be good enough to prevent such trade diversion and unintended benefits to goods from other countries, the Indian side feels. The move comes at a time when India is working on trade

agreements with Thailand, Singapore, Asean, Gulf countries, South Africa and Latin American countries. Mauritius was keen on a FTA with India and new Delhi's decision has come as a disappointment to the Mauritius side. The FTA was supposed to be part of the comprehensive economic co-operation and partnership agreement (CECPA) between India and Mauritius.

According to government sources, the commerce department argues that a FTA with Mauritius would result in trade diversion, with the island-nation located on the Indian Ocean

becoming a centre for re-export of goods from other countries. This view was highlighted during the last meeting of the India-Mauritius joint study group on the proposed CECPA in Port Louis. The Mauritius side was informed that FTA was out of question.

The official reaction of Mauritius is awaited but the Indian side feels there is no scope for a rethink. The proposed CECPA is on track and we may offer a preferential trade agreement (PTA) instead of the FTA sought by Mauritius, sources said.

Mauritius is a very small market as the country's

population is just 1.25 million and the Indian side feels that there are no major benefits for Indian Inc. on the other hand, the benefits to Mauritius are significant as the huge Indian market is going through rapid growth. To assuage the feelings of Mauritius government, the Indian side has offered an PTA and selective tariff concessions through a framework compatible with World Trade Organisation (WTO) norms. Business competitiveness of joint ventures, which will focus on exports to third countries, would be enhanced through such duty sops.

3.8 India to align ROO on ASEAN model

The Financial Express, Bangalore, Thursday, January 20, 2005

PRESS TRUST OF INDIA

NEW DELHI, JANUARY 20: India will adopt the Indo-ASEAN FTA criterion for Rules Of Origin (ROO) for all the other trade pacts with Asian countries, including Thailand and Singapore, and the commerce ministry is expected to take a proposal in this regard to the cabinet by February. This is being worked out to bring about uniformity in the rules and align them with ASEAN countries, which will serve as the model for other trade pacts in the region, official sources told PTI.

ROO with ASEAN have been agreed at 40 per cent value addition only,

thus making them more liberal than those with other trading partners like Thailand, Singapore and SAFTA, where the criterion also included change in tariff head besides 40 per cent value addition.

Rules of origin govern the process of determining origin of products in a particular country.

The early harvest scheme under the Indo-Thai free trade agreement is already under operation and a full-fledged FTA would come into operation from 2006 while the first phase of ASEAN agreement is expected to come into implementation from April One.

It may be noted that Indo-Thai FTA had got

delayed due to differences over ROOs as India was insisting for 40 per cent value addition plus change in tariff head at six digit level.

However, later when Prime Minister Manmohan Singh visited that country to attend the BIMSTEC summit, differences were sorted out after his meeting with his Thai counterpart Thaksin Shinawatra.

The interim ROOs for early harvest into operation from September 1, 2004, were subsequently firmed up at 40 per cent value addition and change in tariff heading at four-digit level besides specific rules for some products.

With the ASEAN agreement coming into operation on a full-fledged

basis in 2009, it could complicate matters, as ROOs would be different for ASEAN and its individual members Thailand and Singapore with which negotiations were currently on. India has been pressing for 40 per cent value addition plus change in tariff head with Singapore also.

India and China are also exploring the possibility of an economic cooperation agreement which is at the joint study group stage.

* Created version of the original article.

3.9 Indo-Malaysian pact to be tightened on treaty shopping

India Pushes For Including 'Limitation Of Benefit' Clause

The Economic Times, Friday, November 19, 2004

Lubna Kably & Hema Ramakrishnan

The ink has hardly dried on the recently notified revised tax treaty with Malaysia. But India is set to renegotiate this treaty mainly to prevent treaty shopping.

Treaty shopping arises when a resident of a third country takes unfair advantage of the beneficial provisions of a tax treaty between two other countries, in this case—the Indo-Malaysian tax treaty. Malaysia is one of India's largest trading partners

among the Asean (Association of South East Asian Nations) countries, with bilateral trade recording \$3.2 billion and projected to cross \$4 billion by this year-end.

There have been instances of treaty shopping

in the case of the Indo-Mauritius tax treaty. Based on this experience, India is on a high alert. Treaty shopping can be prevented, if there is a 'limitation of benefit' clause in the treaty. India is pushing for insertion of this clause in the indo-

Malaysian tax treaty. It has adopted a similar stand in other tax treaties that are currently under renegotiation.

“The Malaysian authorities have given their in-principle nod to the renegotiation,” according to senior revenue officials.

Further, India will also hold discussion with the Malaysian authorities to strengthen the process of exchange of information between tax authorities of the two countries. While the ‘exchange of information’

clause exists in the Indo-Malaysian tax treaty, it is the process for such exchange on a continual basis that requires strengthening.

Another crucial issue for discussion will revolve around co-operation for collection of taxes. At present, in cases of tax default by a foreign company, India can only attach the assets in India.

India hopes to negotiate for insertion of the ‘collection assistance’ clause in the Indo-Malaysian tax treaty. This

would help in recovery of taxes from defaulting foreign companies that have assets outside India in Malaysia. This would be a reciprocal arrangement.

The discussions with Malaysia assume great importance, especially as they follow the visit of Malaysian premier Mr Abdullah Ahmad Badawi to India.

During this visit, India and Malaysian companies entered into as many as 12 memoranda of understanding

(MoUs) to jointly bid for projects in telecom, infrastructure and biotechnology.

The revised tax treaty with Malaysia was notified recently on October 12, 2004. Post renegotiations, the amendments to the revised tax treaty will be brought in by a protocol to the tax treaty. This means that the agreement reached will be attached to the newly revised treaty and will be part of the tax treaty.

* Created version of the original article.

3.10 FTA with Gulf hits a roadblock

The Financial Express, Bangalore, Thursday, January 20, 2005

HUMA SIDDIQUI

NEW DELHI, DEC 12: Despite a framework agreement signed with the Gulf Cooperation Council (GCC) early this year, the proposed free trade agreement (FTA) shows little signs of taking off in the near future. Commerce ministry has expressed reservations about the tax structure since GCC is a tax-free destination.

According to official sources, feasibility study is on, and commerce ministry officials will leave for the second round of talks with GCC in Riyadh next month. In the first round of talks, last month, the issue of tax structure was raised, officials said.

Several more meetings were scheduled to take place to give a formal shape to certain key areas for furthering economic and commercial relations between India and GCC, sources said.

GCC comprises six countries — Saudi Arabia, Bahrain, Kuwait, Oman, Qatar and the United Arab Emirates (UAE).

According to officials, the meeting that took place last month is suggestive of both India and GCC being desirous of exploring possibilities of giving a boost to their commercial and economic ties, including trade and investment. India and GCC had already signed an India-GCC framework agreement on economic cooperation (FAC) in August.

As per FAC, both sides have to consider ways and means to expand and liberalise their trade relations, including initiating discussions on the feasibility of an FTA among them, make arrangements for setting up of joint investment projects and facilitate corporate investments in various fields.

Though bilateral trade between India and the Gulf

countries has increased consistently, it is not commensurate with the potential. During 2003-04, while India's exports to GCC were \$7.02 billion, imports from GCC, excluding oil, was \$3.25 billion. UAE is the second largest importer of Indian goods, after the US. Saudi Arabia is the 16th largest destination for Indian goods. Oil and gas reserves of the GCC region play a vital role in fulfilling India's energy needs and are integral to country's energy security. India-GCC trade, having become extremely diversified, is not limited to oil and oil products only.

India's traditional economic ties with GCC have become stronger in recent years, primarily due to increasing imports of oil and gas, growing trade and investment opportunities and presence of 3.5 million Indian workers in the region.

Major commodities

exported to GCC member states from India include gems and jewellery, textile products, metal manufactures, machinery and instruments, iron and steel etc, while major non-oil items imported from GCC countries include gold, organic and inorganic chemicals, non-ferrous metals etc.

GCC had launched a customs union in January 2003 creating the biggest economic block in the West Asia with a combined GDP of \$330 billion. It has approved a time table for monetary union planned for 2005 and a single currency in 2010, aiming at the formation of a trade block on the lines of the European Union.

An FTA in the region will benefit India substantially as the six members control around 45% of the world's recoverable oil wealth and 20% of gas resources.

* Created version of the original article.



4.0 FTAs: A 'win-win situation'?

Free Trade Agreements are usually purported as resulting in win-win situations for all the parties involved. Ground realities counter this opinion. The kinds of influences that free trade agreements can possibly have on the various domestic sectors of any economy are infinite and complex. For instance, the imposition of an import duty on a certain good may protect domestic manufacturers from competition, but might also hurt other domestic producers who might be using that imported good as raw material. It cannot be said that one influence is less severe than the other and therefore the duty should be imposed or done away with. The determining factors are ultimately, who is the more enthusiastic lobbyist, which research body was consulted, and which individuals were the negotiators. It is hence beyond the scope of this publication to represent them all.

How the government regulates the domestic economic scene in the light of increasing trade agreements is also significant because this has important ramifications for competitiveness. A reduction in the excise duties on Indian companies is a measure that has been welcomed by the industrialists who can remain competitive even with the intense foreign competition coming in form around the world.

Ravi Raina is an excitable kind of guy. A director of Letha-Tech Associates, a leather exporting firm in Kanpur, he remains bubbly and exuberant, even as he recounts an unpleasant story, in what are difficult times for him. "Two years ago, I met an American buyer, who said that he wanted 60,000 rexin belts. We had no work, so I did my costing and offered a ridiculously low price of Rs 22 a strip," says Raina. "He laughed at me and said your cost should be Rs 6 a unit." That was what units in China were willing to do it at. How? Because their cost of raw material was so much cheaper. Eventually, that's the price Raina charged, as the American imported the raw material, supervised the work and even took the waste strips away. Raina made marginal money, but that's when he realised what India's small-scale leather manufacturers were up against.

From Rs 2.38 crore in 1998-99, his turnover dipped to Rs 1.8 crore in 1999-2000. This year? "I'm not sure if it'll even cross Rs 1 crore," says Raina. And profits? That's a dream. Earlier, Raina's company used to export to both Canada and the United Kingdom, now it's only Canada. "I am quite sure that this is the case for all small tanneries across the country," says Raina.

What's gone wrong? Primarily the fact that we've already exploited most markets. Making an entry into new markets like South Africa, Israel and Turkey is expensive for small companies. Add to that, the fact that the Chinese with their lower cost of production are trying to beat the hell out of us in the market. And don't forget the advantages that a large scale domestic manufacturer has even in the export market. All three together are sounding the death knell for small leather exporters in the country. This, when Indian leather exports are growing at an impressive 20 per cent annually. "But it's the large exporter who is cornering the benefit," says Raina. "He can afford to work at 1-2 per cent margins, we can't".

-- Business Today, April 21, 2001
Small Industry: Indian Small Business,
Languishing at Death's Door

Government Assistance? That's A Joke

In fact, sometimes the government is more of a hindrance. Take the leather chemicals business, for instance. Till a few years ago, they were competing successfully, on all fronts, against the transnationals. Then, a vanaspati manufacturer was caught using imported refined tallow to blend with other vegetable oils. The government tried to solve the problem with a sledgehammer: it banned the import of animal oil altogether. Now, fish oil happens to be an important ingredient for some leather chemicals. So, not only did the government's move bust the leather chemicals business, it also increased costs for the domestic leather business.

-- Business Today, April 21, 2001
Small Industry: Indian Small Business,
Languishing at Death's Door

4.1 Cheap Sri Lankan imports hurt local copper markets

Industry alleges that the metal is being imported into India at zero duty without the requisite value-addition

The Economic Times, Bangalore, Friday, February 11, 2005

Suresh Nair
Mumbai, 10 February

THE INDIAN copper industry, which has seen profit margins eroding as a result of lowering of customs duty, is sinking in to deeper trouble as copper imports from Sri Lanka have reached alarming levels, gobbling up around a third of the domestic manufacturers' market share. Copper is imported from

Sri Lanka under cover of the Indo-Sri Lanka Free Trade Agreement (ISFTA).

What hurts the Indian copper manufacturers most is that these quantities are being imported at zero duty under ISFTA. Domestic copper manufacturers sell around 2.2 lakh tonnes of copper in India while rest of their produce is exported. Estimates based on data provided for the last six months show that at least

70,000 tonnes of copper may have been imported into India.

The Sri Lankan delegation, which is visiting India on February 11 to discuss the misuse of ISFTA, would find it difficult to face Indian authorities who may stand firm this time and crack the whip. Copper and aluminium in small quantities constitute over 70% of Sri Lankan imports into India.

According to ISFTA, copper items can be imported from Sri Lanka into India at zero customs duty, provided 35% value addition is carried out in Sri Lanka. The country has no copper smelting facility.

Indian copper manufacturers have alleged that copper imported from Sri Lanka has had an adverse impact on the industry, pulling down the domestic prices of copper, which is

priced at a months average LME prices plus the 15 % customs duties and countervailing duty which is equal to the excise duty paid on copper that is 16%.

According to an industry official, copper remelted wire bars imported from Sri Lanka costs Rs 20,000 less per tonne than the copper manufactured in India.

Cable and enamel wire

manufacturers who use copper bought from domestic manufacturers have been the most effected as cable manufacturers using duty exempted copper from Sri Lanka can price its products lower.

Indian copper producers allege that 35% value addition is impossible. A team led by ministry of mines director Vinod Kumar along

with director general of foreign trade (DGFT) deputy director P K Santra and department of revenue, deputy director Nazim Arshi, during their visit to Sri Lanka copper units to verify if the necessary value addition was possible have in their report observed that value addition was shown only by under invoicing of imported scrap.

Indian copper producers

feel that by fixing a floor price for import of copper scrap that are way below the legitimate price of imported copper scrap, under invoicing becomes easy.

During December 2004 almost 6000 tonnes of copper remelted wire bars were imported in to India from Sri Lanka at nil duty.

* Created version of the original article.

4.2 Anti-dumping duty on Chinese raw silk hits domestic units

The Economic Times, Bangalore, Tuesday, February 15, 2005

Rajiv Jayaswal
New Delhi 14 February

Anti-dumping duty on mulberry raw silk from China is doing more harm than good to the domestic industry. Shortage of raw material in the domestic market has forced the silk garment manufacturers to pay a premium for the Chinese silk fabric.

"The shortage of good quality raw silk has put domestic yarn and fabric manufacturers under pressure. Instead of paying anti-dumping duty to the government, Chinese companies have increased the price of raw silk, assured of their export to India. Indian companies produce only

15,000 MT of silk, whereas it consumes 30,000 MT of silk for both domestic and exports (after value addition)," Mr Bimal Mawandia, chairman, Indian Silk Export Promotion Council (ISEPC) told ET The anti dumping duty on raw silk (of grade ZA and below) in 2003, has pushed up its price to \$27 per kg from \$ 18 per kg. As yam and fabric

manufacturing has slowed domestically, silk fabric is being smuggled from across the boarder. "Importers are also misdeclaring grades of raw silk consignments coming from China in order to avoid payment of antidumping duty. Therefore, every consignment coming from

China is being checked," a government official said.

A group of silk exporters have approached the government to reconsider its decision of imposing anti dumping duty. "We do not produce silk in enough quantity. Whatever little we produce domestically are below the required quality for high-end exports. We are, therefore, dependent on the Chinese silk," Mr Atul Kumar Gupta, partner Fashion House said.

According to exporters, "despite restrictions and smuggling" Chinese silk fabric is cheaper than the Indian silk fabric. "Take georgette (a silk fabric of 60 gram weight). The Chinese fabric is available for Rs 102

per kg whereas, the Indian georgette is sold at Rs 135 per kg in the Indian market. The quality of Indian fabric is far below the Chinese one," Mr P Jacob Samuel, silk garment exporter and former chairman ISEPC said.

Another fear is haunting silk garment and made up exporters. China may capture even our domestic market unless we remain competitive," he added. Significantly, China does not have a significant domestic market for its silk products whereas India has a well-developed domestic silk market. In the global silk trade, India is number two after China, which controls 90% of the over-\$2.5 billion market.

* Created version of the original article.

4.3 Duty cuts to help auto cos absorb FTA shocks

The Economic Times, Bangalore, Thursday, 10 February 2005

**G Ganapathy
Subramaniam**
New Delhi 9 February

To meet enhanced competition arising from concessional imports under the free trade agreements (FTAs) proposed by the government, the auto industry is likely to get a package of sops in the 2005 Budget. According to highly placed sources, the government is considering halving of the additional excise duty on cars to 4% and lowering of customs duty on plastics and metals—key raw materials for auto components. The package would be rounded off with a reduction in import duty on both cars as well as two-wheelers.

The package could translate into benefit for consumers in terms of cheaper cars as well as two-wheelers if the benefits of lower duty are passed on. Considering that competition would intensify once cheaper imports start flowing due to the FTAs, the industry might have to share the benefits with consumers sooner rather than later.

The automobile industry has sought scrapping of the additional excise duty on cars which now stands at 8%. They had also called for reduction on metals as well as plastics to 5% --at the same level as Asean's. This it is argued, is necessary to meet competition from cheaper imports that may materialise due to FTA

imports, primarily from the Asean region. As of now, the imports duty on metals and plastics is around 20%. The current expectation is that it may be brought down to a range of 10% to 15%. The excise duty on components, however, is likely to remain at 16%.

The Commerce and Industry Minister has backed the demand of the domestic industry as it wants a cushion to push through the FTAs. Otherwise, the auto industry feels there would be strong resistance to inclusion of automobiles and components in the early harvest programmes under these FTAs.

The net result of the package would be excise duty of 20% on automobiles

while other minor levies like national calamity cess, automobile cess and education cess would persist, the lower excise would also result in lower countervailing (CVD) on imports. Combined with a reduction in basic customs duty to 50% from the current level of 60%, cost of importing cars should come down significantly.

The Commerce and Industry Department has supported the domestic industry's case for tariff rationalisation since the total incidence of taxes is nearly 50% in the case of cars. In other words, half of what a consumer pays for a car goes to the government in the form of various taxes.



Another important issue is that of the interplay between the bilateral trade scenario, in which a few countries are involved at once, and the multilateral one in which all of 148 countries are the players under the one umbrella – the WTO. Under the WTO are further agreements that deal with specific sectors like agricultural products (Agreement on Agriculture), non-agricultural manufactures (Non-Agricultural Market Access), services (General Agreement on Trade in Services), intellectual property (Trade Related aspects of Intellectual Property), etc. One important difference between the bilateral and multilateral frameworks is that with the WTO, the agreements are sector specific, whereas, bilateral agreements are country specific and generally include a whole range of products – they are more comprehensive in that respect. Each one has important influences on the other. These influences are so complex and notoriously difficult to track that their ultimate influence on one specific country remains not only intensely debated but also a bone of contention between stakeholders and government, and between the different power players. These issues have raised serious questions about the WTO leadership as well.

The upcoming 6th WTO Ministerial in Hong

Kong is expected to be rather focused on services. This is why the General Agreement on Trade in Services is one agreement that warrants some study. The GATS has one article allowing individual member countries to enter into bilateral trade agreements with each other as long as they are more open than the GATS would expect them to be. It is required that all the bilateral trade agreements that WTO member countries enter into be notified to the organisation. Though an authorisation is not required, it is clear from the sections 1 (a) and (b), and 3 (a) of Article V in the GATS that the conditions are rather stringent.

Article V: Economic Integration

1. This Agreement shall not prevent any of its Members from being a party to or entering into an agreement liberalizing trade in services between or among the parties to such an agreement, provided that such an agreement:

- (a) has substantial sectoral coverage, and
- (b) provides for the absence or elimination of substantially all discrimination, in the sense of Article XVII, between or among the parties, in the sectors covered under subparagraph (a), through:

- (i) elimination of existing discriminatory measures, and/or
- (ii) prohibition of new or more discriminatory measures,
 - either at the entry into force of the agreement or on the basis of a reasonable time-frame, except for measures permitted under Articles XI, XII, XIV and XIV bis.
- 3. (a) Where developing countries are parties to an agreement of the type referred to in paragraph 1, flexibility shall be provided for regarding the conditions set out in paragraph 1, particularly with reference to subparagraph (b) thereof, in accordance with the level of development of the countries concerned, both overall and in individual sectors and sub sectors.

It is partly a violation in these conditions that the WTO bureaucracy sees as a thorny problem. But more importantly, it must be noted that the GATS *does* permit countries to negotiate bilaterally, and *does not* require authorisation; then expecting countries to tow the multilateral line is expecting too much. After all, negotiations on individual products and, probably more importantly, exchange of political or economic favours is possible and is wanted only with a few other countries - not with 147 others. India's stand on this issue is unclear in that it openly supports WTO negotiations at the WTO's Ministerial Meetings and simultaneously hits the silver number of bilateral/regional trade agreements.

5.1 Regional pacts threaten global trade talks

The Financial Express, Bangalore, Thursday, January 20, 2005

A top world trade organisation official has warned that a growing web of regional trading agreements threatens to wreck global trade negotiations. "there are more voices saying we are not interested in multilateral agreements and it is time we did something on this," said Stuart Harbinson, director in the office of WTO in Santiago on Saturday.

5.2 WTO hampered by 'spaghetti bowl' deals

The Financial Express, London, Monday, January 17, 2005

By Alan Beattie, World Trade Editor

The World Trade Organisation is being undermined by the intransigence and short-sightedness of its member countries, according to the report of a high-level commission released on Monday.

The commission, led by Peter Sutherland, former WTO chief, said the proliferation of bilateral trade agreements outside the WTO process was betraying the multilateral ideals that underlay the WTO and its forerunner, the General Agreement on Tariffs and Trade.

"The reality today is that the WTO presides over a world trading system that is far from the vision of the architects of GATT", the report said.

The report, which

proposed a series of tangible but limited reforms, was commissioned by Supachai Panitchpakdi, the WTO's current director-general, amid fears that the current Doha round of trade talks was revealing strains in the system.

It said that the "spaghetti bowl" of bilateral and regional trade deals was undermining the principle of treating all trading partners equally. The report argued that the best way of combating this would be to outflank bilateral agreements with a multilateral deal for far-reaching cuts in trade protection, and urged rich countries to set a date for the complete elimination of trade tariffs.

Other specific suggestions included increasing political involvement by requiring ministers to meet annually for WTO talks, rather than

every two years, and for poor countries to be given the right to aid and technical assistance to implement new agreements.

It also called for the WTO director-general to play a stronger leadership role, noting that the position had evolved into one of "international spokesperson and marketing executive" rather than the leader of world trade talks.

The WTO has always been regarded as a system driven by its member countries rather than by the director-general and the Geneva-based secretariat. But the report said: "A member-driven organisation is a valuable concept...as long as the vehicle is being driven carefully in a direction consistent with its overall objectives. In recent years, the impression has often been given of a vehicle with a proliferation of back-seat

drivers, each seeking a different destination, with no map and no intention of asking the way."

But the report stopped short of proposing radical changes to the decision-making processes in WTO negotiations, once described as "medieval" by Pascal Lamy, the former European Union trade commissioner and candidate to replace Mr Supachai as head of the WTO.

There were good reasons for decisions to be taken by consensus, as at present, it said, since this gave more leverage to poor countries.

But the potential for gridlock among the WTO's 148 member countries meant that any nation wanting to block a measure that had widespread support should give the reasons in writing why it was contrary to its vital national interest.

5.3 There are many promises to keep

The time is right to reflect on the ramifications of non-tariff measures

The Financial Express - insight - THE FUTURE OF THE WTO, Bangalore, Wednesday, February 9, 2005

Rajesh Mehta

THE World Trade Organisation (WTO) is 10 years old — the youngest multilateral organisation, to be born from the old Gatt system. The main objectives are similar to those of other multilateral organisations: to lift the living standards, generate employment and accelerate economic growth by negotiating market access. However, unlike Gatt, WTO is a rules-based system and is trying to push its agenda through these rules. In this process, some member countries are facing real problems in implementing existing WTO programmes.

A major challenge to WTO is the proliferation of free and preferential regional /bilateral trading arrangements. More than half the existing 300 regional/bilateral trading arrangements have emerged in the past 10 years. Currently, a major portion of international trade is being carried out through preferences granted in these arrangements. A large number of these PTAs will become redundant if tariffs and other trade barriers are eliminated in future. But a regrettable fact is that some of these

regional/bilateral arrangements are crafted not for promoting trade, but for 'political', and economic diplomacy "cartel" for negotiations, etc. Slow progress of multilateralism may be another reason for the proliferation of the PTAs and FTAs.

India has already signed free or preferential trading arrangements with a large number of countries, such as Sri Lanka, Thailand, Asean, Mercosur, etc., and plans are also on to sign PTAs with many other countries, including Singapore. Keeping in view the trade policy regime of Singapore, the question is how much additional market access a country like Singapore can provide to goods through tariff concessions or preferences in bilateral trading arrangements. It is apparently clear that Singapore can provide very little tariff preference (or concession) to India, because it applies tariff rates only on four commodity lines in the beverages industry. The tariffs on all other commodities tariff lines are zero.

India does not have export competitiveness in the four lines where Singapore

can probably give some preferential tariffs. However it should be remembered that though Singapore has a low level of tariffs, it has not bound tariffs of a large number of industrial products in the WTO. Singapore has given tariff binding for only 65% of industrial products/lines. Further, a large number of lines (2,506) are bound at 10%.

PTAs can prove to be a building block for future agenda of WTO. The India-Singapore PTA will probably also have arrangements for many other sectors, including market access for 'services' and 'agriculture'. In the WTO negotiations, market access in agriculture and services are going to be on the top of the future agenda. The agriculture and services sectors constitute a sizeable share of the world economy. Negotiations in these sectors must take into account problems of poor countries.

Many countries are resorting to a form of administered protection known as non-tariff measures (NTMs). In the Uruguay Round, the approach was to bring existing barriers in to the realm of multilateral negotiations, strengthen rules governing their use, develop surveillance mechanisms to enforce compliance, and

offer improved dispute settlement procedures. Some notable success was also achieved in reaching substantive agreements clarifying the system that members may use.

Nevertheless, many of the rules fall short of effectively controlling the use of NTMs. There are instances of flagrant violation of these rules, or their unreasonable application. Some of these, such as anti-dumping, are used sometimes to foster a climate of uncertainty for foreign suppliers, and or a method of harassment designed to bring about changes in foreign trading practices and policies. In the same way, domestic policies and regulations may also result in a variety of impediments to trade, depending upon their intent and behavioral responses that are induced.

The ascent of NTMs holds special significance to developing countries. They have had difficulties in accessing developed country markets because of restrictive standards, burden some regulations, and expensive compliance. This is an opportune time to reflect on the NTMs.

The writer is senior fellow, RIS. The views expressed are

5.4 A decade of influence and growth

It has emerged as a powerful body, but its constitutional needs revisiting

The Financial Express - insight - THE FUTURE OF THE WTO, Bangalore, Wednesday, February 9, 2005

James Nedumpara

The traditional role of Gatt, the predecessor of WTO, was to eliminate tariff and non-tariff barriers as well as to reduce trade-distorting practices such as subsidies on commodities. But with the establishment of WTO, the traditional role changed. Trade rules, apart from affecting business opportunities in external market, affect numerous social, environmental, development, cultural and ethical concerns. Now, 10 years after the establishment of the WTO, one can proclaim that the WTO is no longer a commercial contract with provisions the member governments can interpret in their own way, or withdraw at their convenience.

The WTO, in its short life, has emerged as the most stable, influential and powerful organisation dealing with international economic relations. In recent times, its trading system has come under stress because some member countries proposed to broaden its agenda. The so-called "Singapore issues" could be characterised as one such

initiative. It is true that some of the issues, such as trade facilitation, competition had normative linkages with trade and could have ideally linked to market access, whereas certain other issues, such as investment, labour had only strategic linkages. Although some of these issues occupied the centre stage of discussion for some time, it augured well for the system that most of such issues, except trade facilitation, have found their way out from the ongoing round of negotiations.

One of the significant achievements of the Uruguay Round was that it introduced the concept of "one country, one vote," with consensus forming the underlying philosophy. The reasons for consensus voting are not necessarily that it is popular, but for both developed and developing countries, it is the least bad alternative. The consensus approach at the WTO was highly successful in the context of dispute settlement, where it required a consensus vote to prevent the authority from not adopting a report. Whilst in the context of political decisions, the consensus approach which required the

consent of all members for an affirmative decision almost broke the process. Particularly the inability of political organs to take decisions brought adverse comments on the consensus approach, to the effect that WTO is a medieval institution, not open to the realities of geo-politics.

In other words, political stalemate and an increasingly active dispute settlement system could provide the right recipe for judicial activism. The mechanism for giving a somewhat large role for the key countries may be necessary if the system has to be durable, although this may not exactly be desirable. Perhaps this is an area where the WTO constitution should be revisited.

The multilateralism advocated by WTO suffered serious setbacks in the wake of failures of the ministerial conference meetings at Seattle and Cancun. The new move to bilateralism and regionalism, at least in the short term, tends to promote mercantilist outcomes among the members at the expense of the non-members. It is also felt that the inherent discriminatory nature of

bilateralism/regionalism is often beset with internal power disparity and could eventually beget unilateralism. Considering that an integrated, more viable, durable multilateral trading system is the telos of WTO, the organisation has to devise a mechanism to review the spawning preferential trade arrangements (PTAs) and their consistency with the WTO rules.

The WTO rules concerning PTAs are rather imprecise and the existing mechanism for review of PTAs is not at all satisfactory. The WTO has achieved great deal of transparency in regard to member countries' trade and regulatory policies, but often attracts the criticism that its own operations are steeped in secrecy. Its constitution does not posit openness and transparency as a fundamental feature of the institution and limits access to governments and their representatives. It is desirable that social and economic actors need information about how the trading system could affect them. For instance, the

submission of amicus curiae briefs in WTO dispute settlement has attracted widespread controversy in the past. The civil society heralded amicus discussions as a significant development, but many members felt that allowing non-governmental parties access to the judicial process is not mandated under the agreements. It may be noted that a number of international fora that deal with inter-governmental

issues, including the International Court of Justice, International Tribunal for the Law of the Sea and the European Court of Human Rights are open to the public. It could, therefore, be argued that WTO should promote openness, subject to adopting measures to ensure that the control is not lost non-state actors.

Lastly, WTO is a venue for negotiations and operates on the principle of

'reciprocity'. The call for free trade will have little appeal if the interests of the developing and LDCs are not given acceptance. In this offer and exchange of concessions, the concept of special and differential treatment, based on "less than full reciprocity" occupies an important place. It is, therefore, essential that liberal market access is extended to these economies

in areas where they have comparative advantage. WTO as an institution has also to ensure that that prior commitments are respected in letter and spirit if it has to preserve its credibility.

The writer is with UNCTAD, Delhi. The views expressed are personal

* Created version of the original article.

The statement...

5.5 'Go the whole hog on regional trade ties'

The Economic Times, New Delhi, Wednesday, November 17, 2004

OUR ECONOMIC BUREAU

Commerce and industry minister Kamal Nath said at the economic editors conference here on Wednesday, that bilateral trade agreements will serve as engines for international trade.

India would prefer to term such co-operation as economic partnership rather than free trade agreements (FTAs)," he said. The country is already in the process of finalising comprehensive economic cooperation

agreement (CECA) with Singapore and is interested in greater economic co-operation through Safta (South Asia free trade agreement), South Asian Association for Regional Co-operation (Saarc) and Association of South-East Asian Nations (Asean).

Globally, at least 50-60% of trade is already outside multilateral system. Regional and bilateral trade is on the rise. India should also go by this trend.

Mr Nath said, "the -

emphasis today is on employment generating exports as opposed to dollar generating exports as in the past. India needs to enhance its capability for export of value-added products." Indian merchandise exports are surging and are likely to touch \$75 billion. If we subtract oil imports our exports exceed imports today, he added.

"The government will also conclude all trade related issues with Bangladesh within three months," he said.

Addressing a question

on the post multi-fibre agreement scenario he said the European Union was excluding India from the generalised system of preferences (GSP) as it qualified high and did not need these preferences.

The government, however, has managed to retain India as part of the system. "While textile exports to the US are likely to go up from 4% to 15% with the dismantling of MFA, Indian textile industry must consolidate," he added.

* Created version of the original article.

The knuckle rapping...

5.6 Don't go whole hog on FTAs: Supachai

The Economic Times, New Delhi, Monday, December 6, 2004

OUR ECONOMY BUREAU

WTO director-general Supachai Panitchpakdi on Monday cautioned India against going the whole hog with regional trade agreements and free trade agreements. He said WTO would institute a mechanism to ascertain whether FTAs and RTAs contributed to the multilateral process of integrating and easing world trade.

Speaking at the India Economic Summit, Mr Supachai said that India would benefit more by using its energy for early conclusion of the Doha Round in WTO, rather than entering into FTAs and RTAs. Making his choice clear, the WTO director

general said, "Multilateral should retain its primacy over bilateral trade agreements."

He added, "These agreements (FTAs and RTAs) have brought down tariffs by 10% or so, whereas the multilateral process under the WTO has reduced tariffs by around 25%".

The rules of origin - meant for adversarial trade deflection - and complexity of tariff lines that the FTAs would bring in are "both confusing and costly," Mr Supachai said, adding that member-countries of the WTO have rights as well as obligations to fulfill in order to strengthen the multilateral trading system.

Developing countries must realise that with their new authority as "emerging

markets", they cannot let the organisation (of world trade) move forward in multiple tracks. At the same time, he conceded that special treatments are needed to safeguard the interest of poor nations, as many countries have not benefited from multilateral trade as they should have. "The WTO must look global," he said.

Mr. Supachai advocated a five-pronged approach for developing countries. Through their powerful grouping G-20, developing countries are increasingly asserting their rightful place in multilateral negotiations, he said, referring to the agricultural package in the August 2004 framework agreement for further negotiations on Doha Work Programme.

Mr. Supachai said that there were no longer any irreconcilable conflicts between the north and the south, and there should not be any wither among the developing countries. Many countries, for instance, believe that with liberalisation of agriculture, many will lose tariff and other preferences they currently enjoy.

While he was appreciative of the fact that South-South trade had increased from 6% to 10%, interests of the least developed countries must also be taken care of. "Apart from benefiting they (countries like India and South Africa) must lead and uplift the lesser developed countries", he said.

* Created version of the original article.

The resulting conflict...

5.7 India, WTO lock horns over FTAs

RTAs will drive global trade: Kamal Nath

The Economic Times, New Delhi, Monday, December 6, 2004

OUR ECONOMY BUREAU

India made it clear on Monday that it would aggressively push for more regional trade agreements, though it

attached importance to the multilateral trading system.

Addressing the plenary session on international trade commerce and industry minister Kamal Nath said, "Economic cooperation

agreements will be building blocks and drivers of global trade. The multilateral system cannot drive south-south trades."

According to him, 60-70% of world trade will come

through RTAs in the next 10 years. "There are over 200 RTAs in operation, and it is estimated that over half of global trade now takes place within the umbrella of some RTA or the other," he said.

Indicating that agriculture will remain a contentious issue in the course of WTO negotiations, Mr Kamal Nath pointed out that the developed world extended \$1 billion as subsidies to farmers. Indian farmers could not compete with western governments, he said.

The minister also said that the government would soon come out with a new technology transfer policy in

a bid to attract state-of-the-art technology India welcomed FDI both as a source of capital as well as a vehicle for technology transfer, he said, adding, 'technology alone can enable developing countries to do the catching up.'

The minister also said that India will resist all kinds of pressures for any new form of protectionism in the world textile trade following the

phase out of quotas under the multi-fibre agreement and expiry of the Agreement on Textiles and Clothing. The phase out would be effective from January 1.

"The expiry of Agreement on Textiles and Clothing does not ensure that protectionism will disappear from the stipulated date. While developing countries poise themselves to fully exploit the opportunities that will open up before them,

there are forces as well to negate this and we shall not allow it," Mr. Nath said.

The minister said that there is a growing need to consolidate the gains while being vigilant on the emerging trade policy conditions to be able to collectively resist pressure for any new form of protectionism in the sector.

* Created version of the original article.

The compromise...

5.8 All FTAs to go beyond trade

The Financial Express, Ceca between India and Singapore

K G NARENDRANATH

In a major policy shift, the Government has decided to convert all preferential/free trade agreements (PFA/FTA) into comprehensive economic cooperation agreements (Ceca). This goes beyond the UPA Government's bid in recent months to embrace bilateralism aggressively.

The decision seems to be aimed at mollifying the World trade Organisation (WTO), whose director-general Supachai Panitchpakdi cautioned India against going the whole hog with PTAs/FTAs at the World Economic Forum's summit in New

Delhi on Tuesday "Cecas might be a more saleable proposition in multilateral fora," is how an official phrased it.

PTAs/FTAs usually involve structured reduction in tariffs between two countries. Cecas would cover preferential relaxation of FDI rules vis-a-vis the partner country tax holidays on investment and income, easing of visa restrictions etc. Trade in services too would come under the purview of a Ceca.

An official said the new arrangement would make the 'distance and content' of such agreements open-ended and lead to greater, continuous engagement between the two countries.

Progressive reorientation of the components of the agreement would be possible, he said, whereas bilateral agreements have a limited mandate.

The UPA government also wants to allay domestic concerns over FTAs harming Indian industry and consumers "While FTA proposals are seen with scepticism by sections of the domestic industry, the PTAs often give an impression to the partner-country that it is highly restrictive," the official said.

The proposed free trade agreements (FTAs) with Thailand, Mercosur and Asean would now be made Cecas. This has already been done with Sri

Lanka. The preferential trade agreement (PTA) with the South Africa Customs Union (Sacu) would be merged with a new Ceca with South Africa.

Other proposed alliances with Russia, China and Israel would also be Cecas, rather than mere FTAs, officials added. The proposed agreement with the Gulf Cooperation Council (GCC) is envisaged to be a Ceca. So is the India - Singapore agreement.

* Created version of the original article.



6.0 Sulfurous Denunciation

6.1 An India-US FTA: Free Trade for America?

By Shefali Sharma
EQUATIONS, Bangalore
September 1, 2004

[www.bilaterals.org, posted September 13, 2004]

There are rumours that the Congress-led Government is set to decide upon a potential free trade agreement (FTA) with the US government. Strong lobbies such as NASSCOM (National Association of Software Companies) are pushing an FTA for services with the belief that it will resolve their BPO (business process outsourcing) problems. Those painting glowing “all gain, no loss” scenarios of an FTA where Indian companies can “render unhindered services in the US” and where Indians “can take up jobs without worrying about H1B visas” seem to be utterly ignorant of the complex politics and legal loopholes of trade negotiations (much less of internal US politics and the global competitiveness of Indian services). A reality check is in order.

While India has played cautiously in the WTO on services and investment, a potential India-US FTA now could undermine its work in the WTO

and handicap government (and industry) ability to pursue long-term development strategies. Insight into how the US has treated its “FTA partners” both weak and strong can give us an ex-ante look at what India can expect when the US comes to the “negotiating table.” This article presents a brief and preliminary look at implications of an India-US FTA through a wider lens. It addresses the India-US economic relationship, the US FTAs with other countries and lessons India can draw from potential impacts on the economic, political and social fronts.

India and US economic relations: A balance of payments?

According to a Business line article, the US now accounts for 28% of India’s trade. The total value amounts to \$18 billion/year. Two lakhs Indians are currently employed through BPO, most for US companies. The US is also India’s biggest investor at 20% of the total FDI. On the other hand, India accounts for less than 1% of the US global trade. Apparently India’s “untapped retail market” values at \$180 billion and is predicted to double by 2010. The implication, according to this Business line article, is that India needs the US much more than the other way around,

especially when it comes to trade and investment.

However, the reality of who benefits from whom might be something else. In agriculture (a sector India is keen to promote in the export market), the trade to the US in edible fruits and nuts declined by 13% and from coffee and tea by 4% in 2003. On the other hand, US trade to India in fertilizers increased by 206% in the same year. India's cotton yarn and fabric trade to the US dropped by 12% while from the US increased by 40% to India. India is the next biggest destination for US products after China with a growth of over 22.5% in 2002. In the same year, services exports (though economists admit that statistics are hard to track) from the US to India were double those from India to the US in with US accruing \$6.8 billion and India, \$3.5 billion. Perhaps, the US "needs" India more than we think it does. The US has a \$300 billion services industry that is eager to get its hands on India's growing market. What will happen to the Indian Services industry when the floodgates open? The Business line article asks: "Can New Delhi afford to antagonise Washington however much its backlash on BPO seems unreasonable and against the tenets of free trade?" The solution proposed is an FTA. However, before jumping on the FTA bandwagon, perhaps India needs to weigh how other US FTA partners have fared in this game.

The US Negotiation Agenda in FTAs: A look at the weak and strong

The US has been steadfast and unrelenting in its commercial interests in FTAs, acquiring commitments from both strong and weak nations that far surpass any commitments the US is able to get through the WTO. The European Union is playing a similar game. The race is on between the two major powers on who can capture developing country markets faster. Covering all areas-- intellectual property; agriculture; services; manufacturing; investment and even government procurement--the US has negotiated well for its multinational companies. Here are some key areas where the US has been able to gain:

Agriculture

Hiding behind the European Union, the US is actually one of the biggest contributors of low world prices of major agriculture commodities (wheat, corn, cotton, soybeans, rice etc.). A US based NGO, the Institute for Agriculture and Trade Policy (IATP) calculates US "dumping" (the selling of products below the cost of production) of crops as 57% below the cost of production for cotton from 1990-2001, 30% below the cost for corn and 40% below the cost for wheat. The mass quantities of these crops distributed by powerful US agribusinesses in turn put local farmers in developing countries out of business because they can no longer compete with the cheap imports from the US. These imports also crowd out developing country exports.

The US is an aggressive agriculture negotiator in FTAs, demanding extremely low or zero tariffs on commodities and regulatory changes in agriculture schemes. Mechanisms targeted are often those that protect countries from US dumping. This is clearly visible in the case of Mexico and Chile.

In Mexico, there are at least 2 million corn producers. Mexico was importing 2.5 million tons of corn prior to NAFTA (1994). By 2001, it was importing 6 million tons of corn that the US sold at 30% below the cost of production. Mexican corn prices paid to farmers fell by 70% after large quantities of US yellow corn was dumped on the Mexican market. Even as Mexican farmers (who had no other employment alternatives) produced 18 million tons of corn in 2001, 3 million went unused. This has created immense political problems for the Mexican government and contributed to severe poverty amongst corn and other farmers in Mexico who comprise 70% of the Mexican population.

Chile used to have a "price band" system that would stabilize the prices of cheap imports such as wheat and sugar in order to support its 200,000 farmers who specialize in products such as wheat, dairy, beans (which they primarily sell to their

domestic market). The US agribusiness sold wheat to the world market at 44% below the cost of production in 2001. When Chile negotiated its FTA with the US, it was forced to remove this price band.

Intellectual Property: Access to Medicines

Another area of key US interest is intellectual property (IP) rights and thus markets for its pharmaceutical and biotech industry. The US typically demands monopoly rights of patents up to 20 years. It also demands provisions that limit governments from enacting laws that promote cheap generics and issuing compulsory licenses to combat epidemics. Such licensing allows rapid and cheap distribution of drugs in times of crisis. In country after country, the US has targeted IP laws and forced governments to adopt WTO-plus commitments thereby violating the WTO declaration that recognizes the right of governments to regulate in the interest of public health.

In the Australia-US FTA, Australia is fighting to preserve its Pharmaceutical Benefits Scheme (PBS) which the US congress might find objectionable. Immense pressure has been put on Australia to change its scheme that allows consumers to benefit from affordable medicines. Negotiations between the US and Bahrain are resulting in similar conditions placed on Bahrain that would limit its ability to bring and market generics for Bahrainian consumers. It is generic medicines that induce competition for lower priced medicines. AIDS anti-retrovirals that once cost up to \$15,000 now cost \$140/year/patient. The US is demanding similar provisions in FTAs with Australia, Chile, Morocco, Singapore and in the Latin America-wide Free Trade Agreement of the Americas (FTAA).

Investor to State

An important feature in the US approach towards international investment agreements (IIAs), is Investor-State dispute settlement. Under these rules (enshrined in NAFTA, in many bilateral

investment treaties and in the most recent US FTAs), investors can sue host country governments for an alleged breach of IIA rules and obligations. The claim can be brought either to the ICSID (the International Center for Settlement of Investment Disputes, at the World Bank), UNCITRAL (United Nations Commission on International Trade Law or other arbitration bodies. Under these systems, the companies and governments fight it out behind closed doors, the public unaware of the proceedings.

As a result of such an “Investor-State” suit under NAFTA, Mexico was ordered to pay around \$16.7 million to an American company (Methalclad Corp) because Mexico’s local administration prohibited the company to build a toxic-waste dump in the area . The company saw this as “expropriation”-denying the company profits that it felt it was owed. In another case, the US’s United Parcel Service (UPS) challenged Canada for denying it similar treatment as was granted to the Canadian Postal Service (essentially UPS claimed that Canada denied it market opportunity for delivering packages).

These examples show that local and national laws and regulations could be subject to court claims if they are considered to violate IIA rules and obligations. These could also include obligations to refrain from using certain performance requirements (a policy tool essential to ensure that countries benefit from FDI) regardless of the public good they may provide. Essentially, Investor-State processes grant more powers to foreign companies than to governments and their national interests. Such processes are an essential feature of recent US FTAs, such as the Singapore-US.

Services

Similarly, US FTA negotiations on services are extremely ambitious and demand drastic and unconditional cuts on tariffs while major elements of services negotiations are still ill-defined and unclear in the WTO GATS negotiations (such as classification, government regulation and rules regarding government procurement and subsidies).

The US services industry usually knows exactly which national and sub-national laws of any given country to target for market access-this is obvious from the few leaked US GATS requests in Geneva. Meanwhile, understanding US national, state and municipal laws and regulations on various services sub-sectors requires expertise that the Indian services industry and the government is currently ill-prepared to handle.

Industry pundits such as CII's Senior Advisor, TK Bhaumik rightly suggests that most of India's services are still unorganized and the time has not yet arrived to engage in a sweeping services agreement with the US. He notes: one or two strong sectors (i.e. software) "does not make the whole sector competitive." Importantly, he suggests that an FTA on services would have implications for other sectors such as industrial goods-another area of aggressive market interests for the US.

Implications for India

Economic and Social Consequences

In February of this year, US Trade Representative (USTR) Robert Zoellick stated that India's average applied tariff in agriculture is 38%, three times the level of the United States and the US manufacturing tariff at 3% compared to India's 20% . And he wants further reductions from India. Given that the WTO has taken away other types of border measures, tariffs are the last remaining resort for India to collect revenues and to protect its domestic agriculture and manufacturing industries. In an FTA, these applied rates would drastically come down with the US having to make little compromise from its own minimal tariffs. Meanwhile, agriculture dumping and protection of its steel and other manufacturing sectors would continue.

India boasts of having protected its small farmers and allowed for potential to export agriculture into the world market through its new deal at the WTO in July of this year. The reality is that actual details are yet to be negotiated in the WTO and will do nothing to curb US agriculture

dumping on Indian farmers since all of the US support schemes come under "non-distorting" or "minimally trade distorting" categories in the WTO. Over 60% of India's population depends directly or indirectly on agriculture and currently the countryside is in deep trouble.

Rural farmers are being "squeezed between falling output prices and rising input prices" with limited support from India's banking structure for credits. As a result, numerous farmer suicides and increased landlessness in the last six years have occurred . It has, in turn, drastically reduced the purchasing power of 60% of the Indian population, even to purchase foodgrains. This phenomenon led to the famous "60 million tonnes" of foodgrain stocks in 2002 even as many in the countryside went hungry. During the following year and half, India exported 17 million tones of foodgrains. According to Utsa Patnaik's research, the latest NSS survey of 1999-2000 cites 75% of the rural population in India as suffering from poverty. In Andhra Pradesh, one of the largest agriculture producing states, as much as 84% of the rural population was in poverty.

Before India engages in further tariff reductions in goods or services (as it continues under-investing in the agrarian sector and/or is prevented from doing so through FTAs and multilateral agreements), it might want to reconsider the dire economic and social consequences for the majority of the Indian population. Without purchasing power, there is no Indian market to speak of, be it for domestic or foreign companies.

Political Consequences

An FTA with US will have broader political impacts. In May of this year, the US named India once again on its "Special 301 Priority Watch List" for "weak protection and enforcement of its intellectual property rights laws." From 1992-2001, the US removed India from its Generalized System of Preferences (GSP) scheme which allowed duty-free entry to Indian products valued up to \$1.1 billion. It did so, on the grounds of "inadequate intellectual property rights protection" .

Clearly, though India has made its intellectual

property laws WTO compatible, the US is watchful of its IP interests and is targeting India. The more dependent India is on the US market (as opposed to numerous markets in demand of India's cheap medicines), the more vulnerable India will be to economic and political pressures by the US. This is at a time when India's AIDS epidemic is just coming to light (5.1 million Indians recorded as infected as of 2003). India's ability to produce and distribute cheap drugs is essential. The experience of African governments in the WTO shows that tremendous trade/aid dependency on the US or the EU leaves these governments virtually powerless to assert their own national interests. Though India is not there yet, it may want to consider whether it wants more or less vulnerability to the US government and its commercial interests. Isn't allowing the US dominated World Bank into the Planning Commission's consultative committees for the Xth Five Year Plan (2002-2007) enough?

Academics and World Bank officials suggest that an FTA with the US could "strengthen India's hand in its broader strategic engagement with the U.S. by creating a stake for American business in India." On the other hand, a stronger hand of US business could also force India to increasingly

cater towards US interests at the threat of economic sanctions. It is a double-edged sword.

Clearly, the US unashamedly used the trade weapon with Chile during the finalization of the Chile-US FTA when Chile refused to support the US war in Iraq. The formal signing of the agreement was held up for several months when Chile refused to give its support to the US at the UN. USTR's Zoellick was quoted as saying "the U.S. government expects 'cooperation-or better-on foreign policy and security issues' from its potential partners in trade agreements" .

Final Comment

Given these preliminary considerations, perhaps India should consider taking care of its business at home first with its "\$180 billion market." Rather than eagerly sitting down with the US at the "negotiating table," India might be wiser to continue building South-South relations as it is doing with China, Brazil, South Africa and in its own backyard.

(The author is temporarily researching with EQUATIONS and formerly managed the Geneva office of the Institute for Agriculture and Trade Policy [2000-2003], monitoring WTO trade negotiations.)

6.2 Investment: NAFTA illegal?

CUPW, Council of Canadians, launch constitutional challenge against NAFTA in Ontario Superior Court.

Straight Goods (Golden Lake, Ontario)
by Steven Shrybman

Dateline: Saturday, January 22, 2005

[www.bilaterals.org, posted 7/2/2005]

On January 24, the Council of Canadians and the Canadian Union of Postal Workers (CUPW) launched a constitutional challenge against

NAFTA's Chapter 11 rules before the Ontario Superior Court of Justice. This is the first time that a court will consider the constitutionality of international trade rules.

Chapter 11 of NAFTA, which allows foreign corporations to sue governments, if they feel that they are being discriminated against by that government's policies, is by far the most shocking and dangerous element of NAFTA, and a profound threat to Canada's sovereignty and the safety of its citizens.

Over the ten years of NAFTA, ten investor-state disputes have been launched against Canada. All of these were brought against Canada by US corporations, which claimed that Canada's laws to protect the public (for example, environmental regulations banning MMT, laws preventing the export of toxic waste, and laws protecting Canada's water) were discriminatory. Two of these have already been settled, at a tremendous cost to Canada.

UPS claims that simply by having a public postal system, Canada is allowing unfair competition.

This newest case was launched in response to the UPS claim that Canada Post violates Chapter 11 of NAFTA. This claim by UPS is one of the most egregious examples of how NAFTA puts corporate interests before the interests of Canadian citizens.

UPS claims that simply by having a public postal system, Canada is allowing unfair competition. This has enormous implications not just for Canada Post but for all public services, as by this logic, every public service from health care to education to the CBC could face similar lawsuits.

In court, the Council of Canadians and CUPW will argue that it is unconstitutional for the rules of NAFTA (created to advance corporate interests and profits) to supersede the laws of NAFTA member nations (made in the interest of the public good).

Background material:

Because they share a conviction that NAFTA investor-State procedures represent a profound assault on the most basic building blocks of a sovereign and democratic society, the Council of Canadians (the Council), the Canadian Union of Postal Workers (CUPW), and the Charter Committee on Poverty Issues (CCPI) have joined forces to challenge the constitutional validity of NAFTA investment rules.

The case is the first to question the lawfulness of NAFTA, and takes aim at the trade deal's investment rules that empower foreign corporations to sue governments for taking actions which interfere with the profitability of their

investments, even where such government measures are non-discriminatory and taken entirely in the public interest.

These extraordinary investor rights have now been invoked by foreign investors and corporations to challenge environmental laws, municipal land-use controls, water protection measures, the activities of Canada Post, and even the decisions of juries and appellate courts. Once initiated, NAFTA investor-State claims are decided by private international tribunals that operate entirely outside the framework of Canadian law and constitutional safeguards, including those of the Charter of Rights and Freedoms. Yet the \$multi-million damage awards against governments made by such tribunals are binding and may be enforced as judgments of domestic courts.

The groups are seeking declarations that NAFTA investor-State procedures, and the Canadian laws that implement them, are void and of no force and effect.

The groups are seeking declarations by the Ontario Superior Court of Justice that NAFTA investor-State procedures, and the Canadian laws that implement them, are void and of no force and effect. They will argue that the federal government acted beyond its lawful authority by establishing NAFTA investor-State procedures which:

- * deprive Canadian courts of the authority to adjudicate matters reserved to them by the Constitution, including claims against the State by private and corporate entities arising from alleged government wrongdoing;

- * infringe and deny the rights and freedoms guaranteed by the Charter of Rights and Freedoms and the Canadian Bill of Rights, including those concerning fundamental justice, fairness and equality;

- * exceed the treaty making powers of government by negotiating a treaty that is incompatible with Canada's most basic norms and values, including those of democracy, constitutionalism and the rule of law.

The Applicants' written argument is available at Canadians.org.

How NAFTA Rules are Being Used

Several investor-State claims have been made against Canada. Two have settled in favour of the foreign investors; two have been decided, also in favour of the foreign investors; others are still outstanding. Often, simply the threat of an investor-State claim is sufficient to discourage government action, as was most recently the case when New Brunswick backed down from plans to establish a public auto insurance system.

In the SD Myers case, Canada was found to have been in breach of its obligations under NAFTA by refusing to allow PCB exports to the US for a brief period in the mid-1990s, even though it was obliged under an international environmental treaty, the Basel Convention, to minimize the export of such wastes. More astonishing is the fact that Canada was held liable for interfering with PCB exports, when importing such hazardous wastes was actually illegal under US environmental law. Nevertheless, and on these grounds, the Tribunal awarded this US-based hazardous waste company \$10 million in damages, even though it had never operated in Canada.

If UPS wins, the result would likely create serious pressure to privatize postal and other public services.

In the UPS v. Canada case, a claim for \$250 million against Canada by United Parcel Service of America Inc. (UPS) has far-reaching and potentially disastrous implications. UPS argues that Canada Post has somehow taken advantage of its letter-mail monopoly to support its parcel and courier delivery services. But in an era when many Crown Corporations and public agencies deliver at least some services in competition with the private sector, that argument could apply to virtually all public sector services - from water supply to health care. If UPS wins, the result would likely create serious pressure to privatize postal and other public services.

UPS also complains about the Canada Post Pension Plan, and an important cultural program that subsidizes the delivery of Canadian publications by Canada Post. UPS says both are unfair and demands damages on these grounds

as well.

Because the case not only affects a vital public service, but also the direct interests of postal workers, both the Council and CUPW petitioned the arbitrating Tribunal that will determine the UPS claim for standing as a party to the dispute. Their petition was rejected by the Tribunal on the grounds that it had no authority to admit third parties to NAFTA investor-State disputes. While the Tribunal left the door open to receiving a brief written submission by the Council and CUPW, it offered no assurance that either would see all, or even any, of the evidence upon which its decision will be based.

The Council, CUPW and CCPI are firmly committed to ensuring that if large foreign corporations want to challenge Canadian public policy and law, they must do so in our courts, before our judges, and in accordance with Canadian law, including the Constitution.

For more information, please contact: Laura Sewell, Media Officer, Council of Canadians, Tel: 613.233.4487 ext.234 Cell: 613.795.8685 Fax: 613.233.6776 or on the web at Canadians.org.

Steven Shrybman is a partner in the Toronto-based law firm of Sack, Goldblatt and Mitchell but he practices international trade and public interest law in Ottawa, Canada. Mr. Shrybman has practised environmental law for over twenty years, and immediately before establishing practice in Ottawa, served as the executive director of the West Coast Environmental Law Association.

For the past fourteen years his work has focused on international trade and investment law, a subject about which has written, spoken, and published extensively. His most recent work, A Citizen's Guide to the World Trade Organization, was co-published by James Lorimer and the Canadian Centre for Policy Alternatives.

Mr. Shrybman has served as a member of an expert advisory committee on the resolution of foreign investment disputes to the Federal Minister of International Trade, and as a member of Canada's Sectoral Advisory Group on International Trade - Environment.

6.3 Stop the mad pursuit of bilateral free trade and economic partnership agreements!

Independent Media Center, Quezon City
by Stop the New Round! Coalition

[www.bilaterals.org, Wednesday, January 26, 2005]

We - farmers, fisher folks, rural women, workers from the formal and informal sectors, and non-government organization belonging to the Stop the New Round! Coalition - express our strong opposition to government's mad pursuit of bilateral free trade agreements particularly with Japan, China and the United States of America.

What's the deal?

In the SNR! campaign on the WTO in 2003, we raised the issue of information disclosure. We demanded that negotiations in the WTO on possible new agreements, which would have far reaching implications on livelihoods and jobs, are matters of public interest. The negotiating agenda therefore of the Philippine government should be subjected to public scrutiny and debate.

Today, we raise a similar concern over the lack of transparency over these bilateral trade negotiations. Very few Filipinos know that the government is negotiating an economic partnership agreement with Japan, or is negotiating under ASEAN with China and India, or that studies have already been done on a possible US-Philippines Free Trade Agreement. These agreements remain in the realm of government technocrats and the business community. Information and documents regarding these agreements have not been made available to the public to generate the kind of informed public debate over these agreements that we think is necessary. We do not know what is expected from deals with economic superpowers like China, Japan, India, and the United States under these bilateral and regional trade agreements. At the very least, the government

should make an effort to let the people know what agreements we are entering into.

The dangers of bilateral FTAs

The public must be warned that the proliferation of bilateral free trade agreements is yet another alarming facet of the global trade liberalization agenda. Hidden from view by regional and global negotiations and considering their secrecy, they do not attract attention and scrutiny. Yet, they are being used as channels to get faster, deeper free trade and investment commitments than is possible and allowable in a malfunctioning World Trade Organization (WTO).

Bilateral negotiations are more daunting, wide-ranging and more detailed than the multilateral approach. As is often the case, highly developed economies, which have more resources and budget for marathon technical negotiations, enjoy the advantage in the bilateral talks and are able to maximize their interests.

The emerging trend is that the developed countries are more demanding in bilateral negotiations than at the multilateral level. In the area of services, the current model of EPA go further than the General Agreement in Trade and Services (GATS), which theoretically gives developing countries the option to gradually liberalize and to exclude some sectors, for example, the health and education sectors, from the liberalization process. EPAs, on the other hand, call for reciprocal and progressive liberalization of all service sectors as soon as possible. On the other hand, only a few developing countries committed themselves to the deregulation of the services sector under the WTO.

Through the EPAs and bilateral free trade deals, developed countries are trying to bring in new issues (e.g., investment, transparency in government procurement, competition policy and

trade facilitation), which were roundly rejected during the WTO negotiations. In fact, the rejection of these new issues led to the collapse of the Cancun negotiations as the developing nations did not want to negotiate on new issues before the old issues have been exhaustively settled.

The case of JPEPA

The negotiations over a Japan-Philippines Economic Partnership Agreement (JPEPA) is now nearing completion. Unfortunately, the terms and documents being negotiated under JPEPA (especially the list of product coverage) and other free trade deals in the pipeline are not publicly available. The JPEPA negotiating process lacks transparency and is unfair! It is disturbing the way the Philippine government has been fast-tracking this highly secretive negotiation process.

Given the dearth of information, civil society participation in these emerging trade agreements is sorely lacking. Apart from some token consultations with select private sector stakeholders, government has not provided any venue for more substantive discussions and deliberations on these important trade issues and developments. As a result, very few people even know about these bilateral and regional trade agreements.

Possible constitutional violations

But given its “FTA plus” nature, the Japan-Philippine Economic Partnership Agreement (JPEPA), is in danger of contravening or virtually supplanting at least five provisions of the Philippine Constitution:

Article II, Sec. 19. The State shall develop a self-reliant and independent national economy effectively controlled by Filipinos.

Article XII, Section 1. The State shall promote industrialization and full employment based on sound agricultural development and agrarian reform, through industries that make full and efficient use of human and natural resources, and which are competitive in both domestic and foreign

markets. However, the State shall protect Filipino enterprises against unfair foreign competition and trade practices.

Article XII, Section 10. In the grant of rights, privileges, and concessions covering the national economy and patrimony, the State shall give preference to qualified Filipinos. The State shall regulate and exercise authority over foreign investments within its national jurisdiction and in accordance with its national goals and priorities.

Article XII, Section 12. The State shall promote the preferential use of Filipino labor, domestic materials and locally produced goods, and adopt measures that help make them competitive.

Article XII, Section 13. The State shall pursue a trade policy that serves the general welfare and utilizes all forms and arrangements of exchange on the basis of equality and reciprocity.

National treatment - the requirement that foreign investors be treated no less favorably than domestic investors, regardless of the circumstances - is a fundamental principle of EPAs and bilateral free trade pacts. This provision limits the array of options and actions that could be taken by national governments in protecting their economies. Thus, the EPA with Japan will override not only our laws governing foreign investment but the Constitution itself. EPAs will virtually “denationalize” the control of land, natural resources, and public services such as water, energy, health, education, and other vital public services. By extending “national treatment” to foreign investors, the agreement would lead to the near total loss of national control over investment and deprive government of its ability to conduct industrial policy and undertake strategic planning.

Government’s failure to adequately inform the public so that they can have meaningful participation in trade negotiations is in itself a violation of the Constitution. We are committed to promote a broad process of participation by all stakeholders, which allow them to become informed so that they can analyze cost and benefits, develop proposals and present these to government officials.

The false choice between bilateral agreements and

WTO agreements

Raising our serious concern over the bilateral approach does not imply, however, that we are amenable or contented with the current multilateral approach to trade liberalization under the WTO. In fact, the two approaches complement each other. It is not really a question of what approach is best or optimal to promote and facilitate trade. Needless to say, both approaches espouse the same neo-liberal, free trade dogma that threatens the viability and survival of small and large enterprises.

It is in this context that the Stop the New Round! Coalition reiterates its opposition to further trade and trade-related liberalization whether through bilateral and regional trade agreements or the WTO.

We urge the government to seriously rethink its mindless pursuit of bilateral free trade agreements. Initial government projection shows that the government stands to lose PhP16.9 billion in foregone revenues starting this year (PhP15.37 billion in potential Customs duties and PhP1.54 billion in value-added tax payments) if the

provision calling for the tariff elimination of select commodities under the JPEPA would be approved. It is indeed incomprehensible why the government rabidly pursues bilateral free trade while the country is experiencing its worst fiscal crisis in decades.

We are calling on the Philippine Congress to investigate the economic impact of the various bilateral free trade deals being pursued by the Executive branch. The Legislative branch must now act to defend Philippine national interests not only in the WTO negotiations, but more importantly in bilateral and regional free trade talks, particularly in the ASEAN Free Trade Area (AFTA), the Japan-Philippine Economic Partnership Agreement and the RP-China Free Trade Agreement. The protection of domestic markets and local sources of livelihood should be the guiding principle in determining the Philippines' decision whether or not to participate in any form of trade agreement.



7.0 Conclusion

Regional and bilateral trade agreements have been pursued with considerable vigour and self-interest in the international trading scene. Nations' preference for this mode of operation goes beyond reasons of geographic proximity or political ideology; it is rooted in the fact that it allows them to retain their right to choose their trading partners and the extent of trade liberalization that they are ready for. Since 1995, the emergence of the WTO as the single most potent rule-making body for ensuring freer international trade had eclipsed this trend. But the tables have turned now and the new age proliferation of free trade and regional trade agreements has posed a serious challenge to the existing decade-old multilateral trading system of the WTO. While some analysts consider this a reflection of the decaying confidence of many countries with the success of the WTO negotiations, some others are vehement in their belief that the new process is but feeding into the older one.

In the case of India, while recent trends highlight the government's newfound enthusiasm for bilateral agreements, it has continued to voice its staunch loyalty to the WTO's multilateral trading mechanism. Whether the reason for this stems from the need to tow a certain political line

or to retain the role of an influential player in the multilateral arena, is unclear at the moment. Whichever be the case, the question persists and warrants further in-depth political research.

Trends have indicated that unless thoroughly researched, free trade agreements often cease to be 'win-win situations'. In India, the disagreement between the country's most powerful and influential industrial bodies over the feasibility of the Indo-Singapore free trade agreement and the added confusion between research bodies themselves, corroborates this statement. These indicators clearly point in the direction of more intensive research and consultation on behalf of the government prior to the signing of such vital trade agreements.

Inter-linkages between the different sectors of the economy is another area that needs clearer understanding. If the government is considering opening up trade in a set of industrial goods with a country, it cannot be assumed that the other sectors of the economy - services and agriculture - will remain untouched. There are very strong forward and backward linkages, implying that all sections of the economy are bound to be affected. It must be noted too that these problems could be

even more complicated when the FTA is in the services sector, the boundaries of which are ill defined and the effects of which, therefore are difficult to perceive. As the complications surrounding the proposed Indo-US Services FTA would suggest, a comprehensive cost-benefit-analysis of any truncated sector-specific FTA is warranted.

In addition to economic efficiency, there continue to remain questions of social equity and sustainability. Reports indicate that many of the bilateral agreements being currently negotiated by the Indian government pose serious threats to the viability of certain sections of the economy, especially small and medium entrepreneurs. This is particularly true of proposed agreements with economies like China and Singapore, whose rapidly expanding export industries look poised to sweep over the Indian market and put many a small producer permanently out of business. In such situations, while economic efficiency will persist (as inefficient producers will be forced out of the market) and the consumer will benefit (through more competitive pricing), the government could well be faced with a chronic unemployment problem that could spiral into a

social crisis.

The opinions of the industrial lobbies and government bodies that have been represented here are not truths; they are opinions based on individual or group interests. These opinions have the potential to shape the future of every individual in this world, grant or snatch human dignity – a fundamental human right, untether or tie down the imaginations of countries full of people. Understanding trade agreements goes beyond economic and political needs; they are all encompassing and stand to affect all aspects of our individual and collective existence. The objective of this compilation is to initiate a discussion and debate on this issue. The task of any willing and able Indian, whether an activist, a trade analyst, a student or just a concerned observer, is to analyse the situation from their perspective, and make their satisfaction or resentment heard at the level where it may have an impact. It is important not to get swamped by the effects of the decisions taken by those we have empowered and to exercise the rights that every citizen of a democratic country has.